July 2013
IMF Country Report No. 13/201

Colombia: Arrangement Under the Flexible Credit Line—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Colombia.

In the context of the arrangement under the Flexible Credit Line, the following documents have been released and are included in this package:

- The staff report for the arrangement under the Flexible Credit Line, prepared by a staff team of the IMF. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement of June 4, 2013, on the assessment of the impact of the proposed Flexible Credit Line arrangement on the Fund's finances and liquidity position.
- A Press Release summarizing the views of the Executive Board as expressed during its June 24, 2013 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Colombia.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COLOMBIA

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE

June 7, 2013

EXECUTIVE SUMMARY

- **Background.** Colombia's economic performance in recent years has been robust, underpinned by a very strong institutional framework and prudent macroeconomic management. After moderating in 2012, output growth is converging to potential. Inflation is well anchored within the 2–4 percent official target range, and the financial system is sound. Strong capital inflows (mainly foreign direct investment) more than finance a broadly stable current account deficit, and the balance of payments is recording surpluses. Fiscal policy is prudent and guided by a structural fiscal balance rule on the central government.

- **Outlook.** The near-term outlook is generally positive, with real GDP projected to grow by close to potential (4½ percent) and inflation to remain within the official target range. The external current account deficit is expected to stay broadly stable as a share of GDP, while net private capital inflows are envisaged to remain strong. The authorities are committed to maintaining prudent policies and strengthening further policy buffers.

- **Risks.** Since the approval of the last Flexible Credit Line (FCL) arrangement in May 2011, risks to the global outlook have persisted and in some cases intensified. Its strong fundamentals notwithstanding, Colombia could be adversely affected by a steep drop in oil prices, an intensification of the global downturn, or a sharp rise in global risk aversion.

- **FCL arrangement.** The authorities are requesting a two-year FCL arrangement for 500 percent of quota (SDR 3.87 billion), which they intend to treat as precautionary. The access requested would provide Colombia with reasonable cover in an adverse external scenario. Staff assesses that Colombia meets the qualification criteria for access to Fund resources under the FCL arrangement, and recommends its approval by the Executive Board.

- **Fund liquidity.** The proposed commitment of SDR 3.87 billion would have a small effect on the Fund's liquidity position.

- **Process.** An informal meeting was held on May 6, 2013 to consult with the Executive Board on a possible FCL arrangement for Colombia.

Approved By
Miguel A. Savastano and Mark Flanagan

This report was prepared by a staff team led by Valerie Cerra, and comprising Teresa Daban, Pablo Morra (all WHD), and Shuntaro Hara (SPR). Prepared by the Western Hemisphere Department
(In consultation with other departments)

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ATTACHMENT

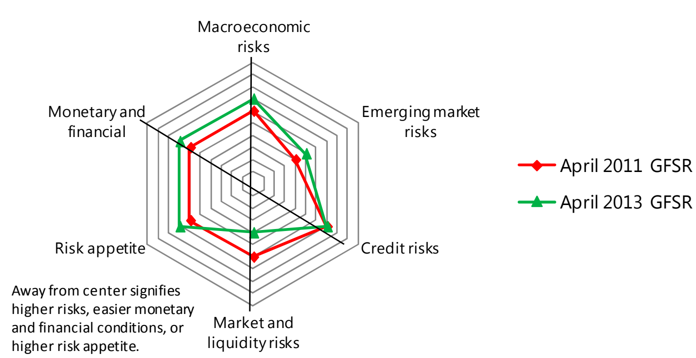
BACKGROUND

1. **Colombia's economic performance in recent years has been very strong, underpinned by a very strong institutional framework and prudent macroeconomic management.** Following a sharp slowdown in 2008–09, output growth rebounded vigorously and inflation stayed within the official target range. A very strong policy framework—comprising an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a medium-term fiscal framework—provided policy space to undertake timely and effective countercyclical measures to mitigate the effects of the global financial crisis, and skillful policy management helped maintain strong growth with low inflation thereafter. Three successive FCL arrangements have supported the authorities' policies by providing a significant buffer against global risks (access under the three arrangements varied in line with the outlook for global risks at the time of the authorities' request).

2. **Adverse risks to the global outlook continue to loom large.** While global financing conditions have improved since 2012, significant risks to the global economic outlook persist. Key short-term risks include a standstill or incomplete delivery of policy commitments at the Euro area level or its individual members, a contractionary fiscal policy shock in the United States, a deeper than expected slowdown in emerging market economies, and a sudden increase in global risk aversion. Key medium-term risks include a protracted period of slow growth in Europe and distortions arising from the exit from unconventional monetary policies in advanced economies. The materialization of these shocks could significantly alter global growth prospects and financial conditions, and affect Colombia's economy and external accounts. In particular, a slowdown in global growth would reduce the demand for Colombian exports, while a steep drop in oil prices would adversely affect its export revenues (commodity exports account for 70 percent of total exports) and inflows of foreign direct investment (mainly destined to oil and metals). A prolonged rise in global risk aversion would increase Colombia's risk premium, dent investors' confidence, and reduce financing to both the private and public sectors.

3. **Since the approval of the last FCL arrangement (in May 2011), some global risks have intensified.** According to the global financial stability map presented in the Global Financial Stability Report (GFSR), macroeconomic and emerging market risks have risen since 2011 and other risks remain elevated. Moreover, the current global growth outlook (for 2013–14, as reflected in the April 2013 World Economic Outlook) is more pessimistic than the global outlook in April 2011 (for 2011–12). In addition, policy actions in advanced economies have further eased monetary and financial conditions, increasing global liquidity and capital flows to emerging markets.

Global Financial Stability Map



Source: GFSR.

Global liquidity conditions and external financing flows to emerging economies may tighten in coming years (for example, if potential bond market stress in advanced economies increases global risk aversion).

4. The authorities are of the view that the FCL has provided them space to further strengthen their policy framework and policy buffers. The fiscal policy followed in recent years has further strengthened the fiscal position, and resulted in a gradual decline of the structural fiscal deficit and the public debt-to-GDP ratio. In addition, since the last FCL arrangement was approved (in May 2011), the authorities adopted reforms to improve the management and distribution of oil and mining royalties, and sanctioned and began implementation of a structural fiscal rule at the central government level. With inflation firmly anchored within the official target range, they also have had ample policy space on the monetary front, which they have used judiciously. The flexible exchange rate has remained a key shock absorber amidst strong capital inflows, and international reserves have increased considerably. Moreover, in the context of the 2012 FSAP update, the authorities have set out an ambitious reform agenda to further strengthen the resilience of the financial system.

RECENT DEVELOPMENTS

5. Output growth moderated in 2012, owing to earlier policy tightening and tepid external demand. As real GDP growth surged to nearly 6 percent in 2011 and the output gap closed, the authorities appropriately tightened policies (in line with Fund advice) to stave off potential overheating pressures. A 225-basis points rise in the monetary policy rate between February 2011 and February 2012, combined with some fiscal tightening and macro-prudential measures to stem high credit growth, brought about a welcome moderation in domestic demand growth. Ripple effects from a weak external environment and peso appreciation contributed to a rapid slowdown in the manufacturing and agricultural sectors in the second half of 2012, adding to the negative impact of unexpected supply shocks (e.g., disruptions in oil production) on economic activity. Overall, these factors lowered real GDP growth to 4 percent in 2012.

6. Strong capital inflows more than financed a broadly stable external current account deficit (in percent of GDP), resulted in a large balance of payments surplus and put upward pressure on the peso. Despite high export prices and the moderation of domestic demand growth, the external current account deficit in 2012 ended at broadly the same level as in 2011 (3 percent of GDP), reflecting a strong demand for investment-related imports, and large profit repatriations by multinationals. The financial account posted a sizable surplus (of about 4½ percent of GDP), driven by large net inflows of foreign direct investment. The strong balance of payments put upward pressure on the peso, which strengthened in nominal terms by about 9 percent during 2012. The real effective exchange rate appreciated by about 6 percent.

7. Inflation and unemployment declined, and credit growth started to ease. After peaking at 4 percent in late 2011, headline inflation fell to 2 percent (y/y) by April 2013, the bottom of the

2–4 percent official target range, reflecting the lagged effect of the 2011 tightening of policies and currency appreciation. Despite these changes, inflation expectations remained well anchored within the official target range. Unemployment fell to about 10 percent, continuing the declining trend experienced over the past decade. Credit growth to the private sector, which was above 20 percent (y/y) by late 2011, slowed to 15 percent (y/y) as of February 2013, while non-performing loans remained low at 2.9 percent.

8. The authorities have adjusted monetary policy stance in response to the changing conditions. As it became clear that the economic slowdown in 2012 would be somewhat more pronounced than originally envisaged, the central bank reassessed its policy stance and lowered the policy rate by 100 basis points between July and December of 2012. In addition, the central bank took advantage of the large capital inflows to allow some appreciation and increase international reserves by more than US$5 billion.

OUTLOOK AND POLICIES

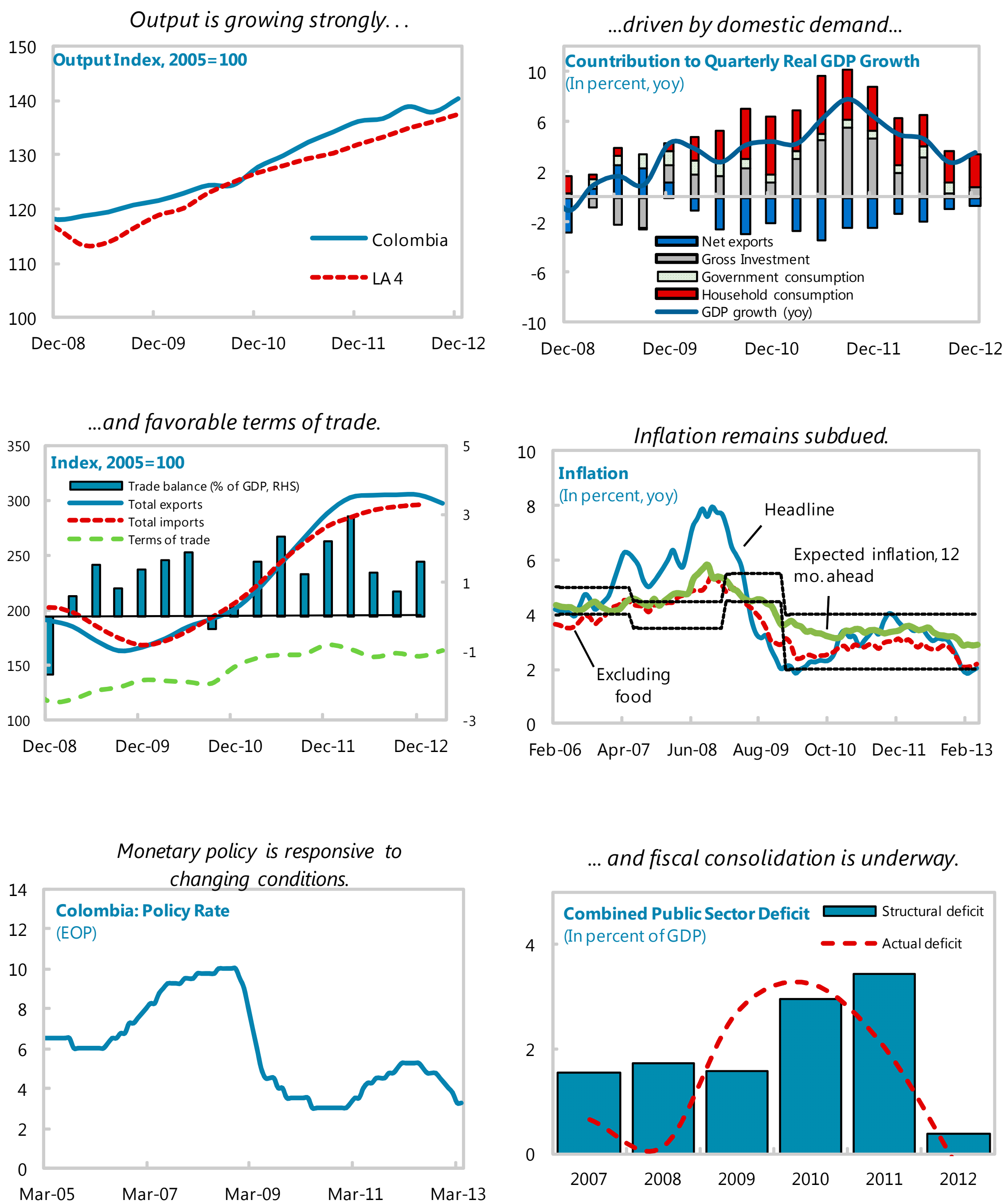
9. Economic growth is expected to increase in 2013 and hover at around potential thereafter. Real GDP growth in 2013 is likely to exceed 4 percent and thereafter stabilize at about 4½ percent. Inflation is projected to remain subdued, with expectations well anchored at the midpoint of the 2–4 percent official target range. The external current account deficit is expected to remain at about 3 percent of GDP in 2013 and decline to about 2.7 percent of GDP in 2014, mainly as a result of higher commodity exports. Net private capital inflows are projected to remain strong, reflecting both solid domestic fundamentals and abundant global liquidity.

10. The medium-term policy stance strikes a reasonable balance between supporting activity and strengthening policy buffers.

- **Fiscal policy.** The budget for 2013 envisages an increase in public investment on infrastructure, while adhering to the authorities' medium-term fiscal consolidation target. The central government's structural deficit is projected to decline to 2¼ percent of GDP by 2014 (3 percent of GDP in 2012). Under the structural balance rule for the central government (enacted in 2011), this deficit is envisaged to fall below 1 percent of GDP by 2022. For the public sector as a whole, the overall deficit is projected to fall below 1 percent much sooner.

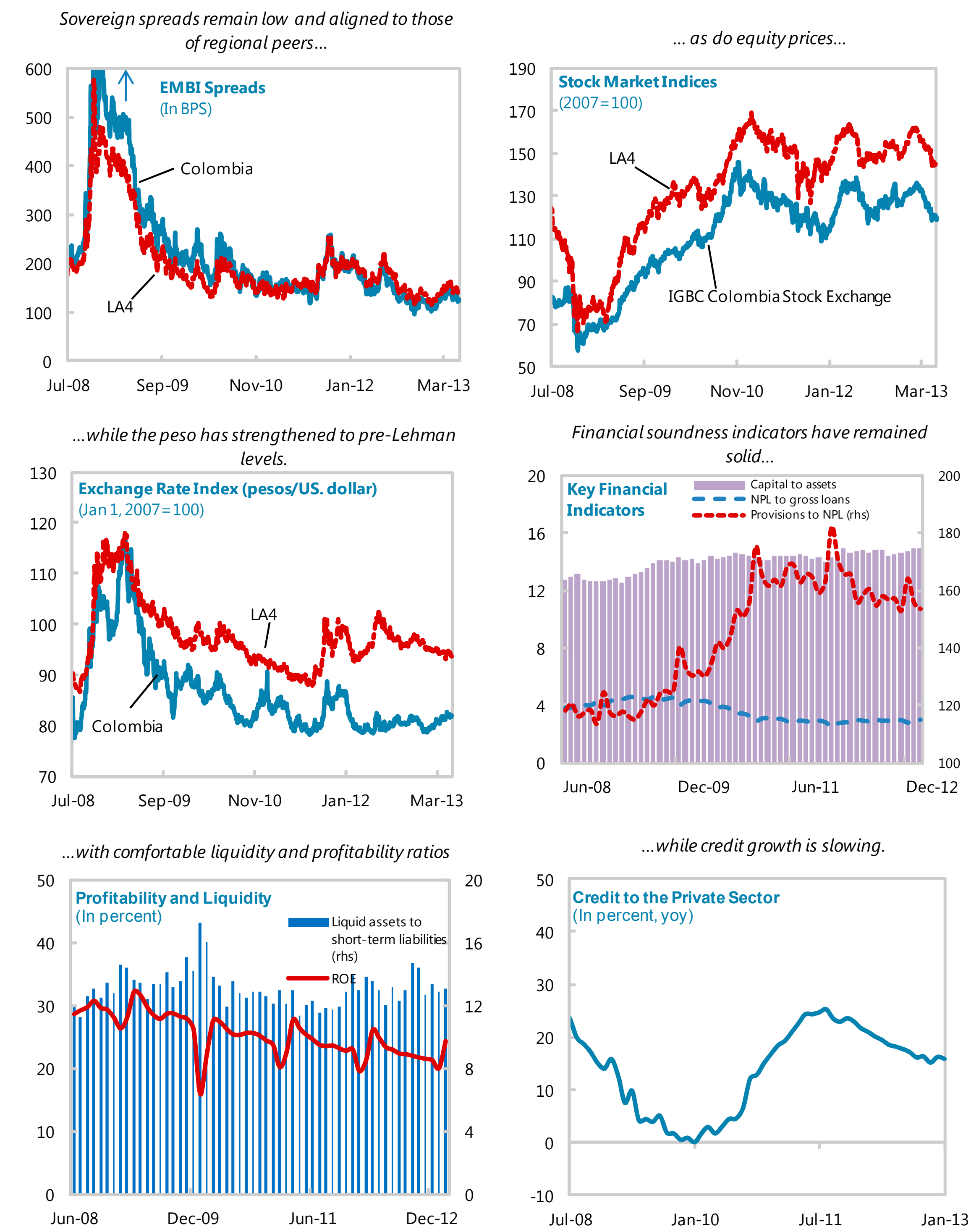
- **Monetary policy.** Monetary policy continues to be conducted in a manner consistent with an inflation targeting framework. A decline in expected inflation since mid-2012 allowed the central bank to lower the policy rate to 3¼ percent as of March 2013 to support activity amidst higher global uncertainty. With inflation expectations firmly anchored within the official target range (Figure 1), the central bank still has policy space to ease further if economic conditions warrant it.

Figure 1. Colombia: Recent Economic Developments



Sources: Haver Analytics; and Fund staff estimates.
Note: LA4 represents the simple average of Brazil, Chile, Mexico, and Peru.

Figure 2. Colombia: Financial Market Developments 1/

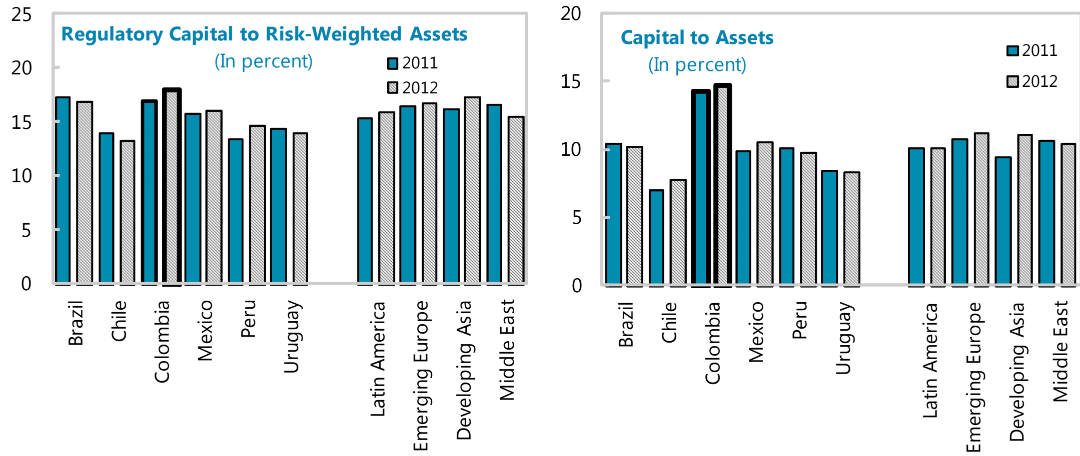


Sources: IFS; Haver; Datastream; and Fund staff estimates.

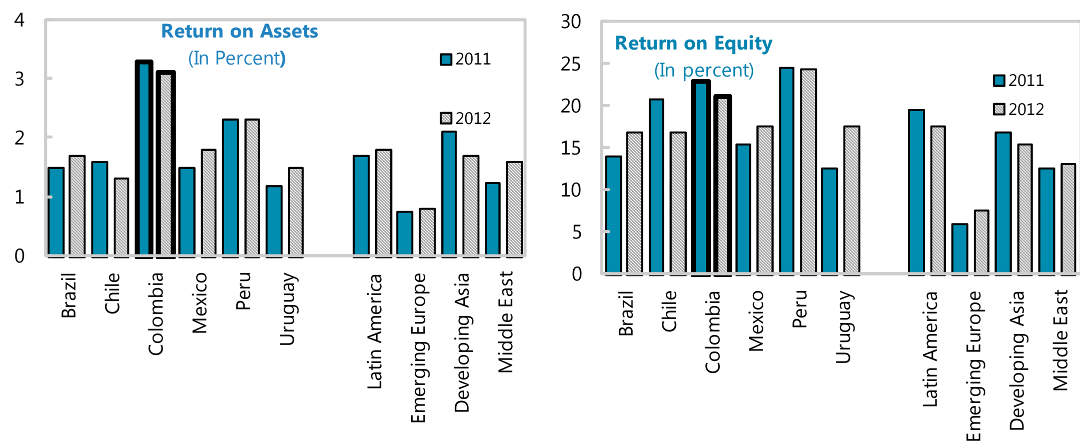
1/ LA4 represents the simple average of Chile, Brazil, Mexico, and Peru.

Figure 3. Financial Soundness Indicators: Colombia and Other Emerging Markets

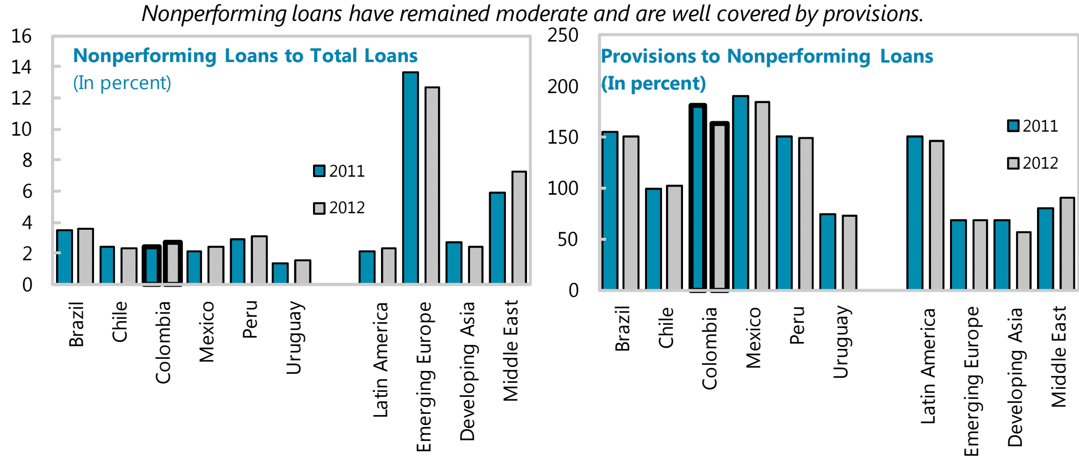
Colombian banks remain well capitalized...



...and profitable.



Nonperforming loans have remained moderate and are well covered by provisions.



Source: April 2013 GFSR Statistical Appendix.

- **Exchange rate and reserves.** The flexible exchange rate has continued to help absorb external shocks. Also, as noted, the central bank is taking advantage of large capital inflows to rebuild further international reserve buffers (thus improving reserve coverage according to standard metrics, Figure 6 and Table 2). International reserves increased by US$2.6 billion in the first four months of 2013, on top of a US$5 billion increase in 2012. At US$39.6 billion, the level of international reserves as of end-April appears broadly adequate for "normal" times, but not yet large enough to offset the impact of large shocks.

11. Ambitious reforms to further strengthen Colombia's policy framework and economic resilience are underway. In December 2012, Congress approved a comprehensive tax reform that will help reduce nonwage labor costs and inequality, facilitate tax administration and compliance, and promote job creation in the formal sector. The latter may also strengthen the competitiveness of the industrial sector and help reduce Colombia's dependence on the oil and mining sectors. The authorities are also weighing options to increase coverage and fairness in the public pension system, which would further increase incentives for formal sector employment. In addition, as noted, the government is committed to address the FSAP recommendations (IMF Country Report 13/50) in order to further strengthen the financial system (e.g., including by improving the risk-based approach to supervision and further strengthening consolidated supervision of financial conglomerates). In turn, continued financial deepening would also contribute to reducing volatility stemming from the relatively small domestic financial market.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

12. The authorities are of the view that external downside risks remain elevated, and have expressed interest in a successor 2-year FCL arrangement, which they intend to treat as precautionary. They consider that global risks have lasted more than what they had anticipated in 2011 and that access to resources from the FCL would remain useful to provide the breathing space to further strengthen their policy framework and increase policy flexibility in the face of continued uncertainties. They further argue that notwithstanding their efforts to rebuild buffers, international reserves (relative to various metrics) remain below values prevailing before the global financial crisis (see Table 2).

13. Colombia would be particularly affected by a sharp decline in commodity prices. In 2012, commodity exports (mostly oil) accounted for about 70 percent of total export revenues. In addition, the bulk of foreign direct investment inflows are channeled to commodity-related projects (e.g., oil and mining). A sharp and prolonged fall in the prices of Colombia's main commodity exports would weaken significantly its balance of payments and increase external financing needs.

14. Lower global growth or a surge in global risk aversion also would affect Colombia. Colombia has strong trade links with the U.S. and Europe (accounting for over half of total exports), as well as with China and Venezuela (about 5½ and 4½ percent of total exports, respectively). Its current account balance, public finances and output are dependent on its trade with its main partners, and would thus be adversely affected by lower growth in any of them. On the financial side, a sudden increase in global risk aversion that lowers the inflows of private capital to emerging markets could create rollover difficulties, especially for the private sector.

15. In staff's view, access under a two-year FCL arrangement in the order of about US$5.8 billion (SDR 3.87 billion or 500 percent of quota) would provide reasonable coverage against these global risks. Colombia's trade and FDI linkages have increased in recent years, reflecting the country's continued integration to the global economy and transformation into a more open, dynamic economy.[1] As a result, Colombia's balance of payments flows have increased in nominal terms, increasing their sensitivity to changes in commodity prices and rollover risks. In fact, applying the same set of shocks to the projected external financing requirements of Colombia for 2013–14 as those applied at the time of the request of the 2011 FCL arrangement (to the projected financing requirements for 2012–13) leads to sizable financing needs. As Table 3 shows, if all those shocks (which are mild compared to past crises and other FCL requests, Box and Figure 4) were to materialize over the same 12-month period, Colombia's balance of payments inflows would be about US$9.5 billion lower than in the baseline projection for 2013 and 2014. The scenario further assumes that about 30 percent of that (notional) shortfall could be absorbed by foregoing the increase in international reserves projected for 2013–14 in the baseline balance of payments projection (Table 2). Accounting for this, the combination of shocks would give rise to net external financing needs of about US$6.9 billion, on average, compared to the baseline.

16. The authorities are prepared to rely less on contingent financing from the Fund as external risks recede. As noted earlier (¶11), the authorities remain committed to maintaining very strong policies and to continue rebuilding policy buffers. Regarding the latter, during the recent Article IV Consultation discussions, the authorities underscored their intention to adhere to their fiscal consolidation targets, continue strengthening their international reserves position, and continue upgrading financial system regulation. Since then, as noted earlier, they have increased foreign reserves by US$2.6 billion by intervening in the foreign exchange market. The authorities consider that adherence to this strategy will prepare them to eventually do without contingent financing from the Fund, especially if risks to the global outlook recede. Reflecting this commitment, the amount of access requested under the proposed FCL is about 20 percent lower than the financing gap projected under the adverse scenario (Table 3).

[1] See Annex I of the Staff Report for the 2012 Article IV Consultation (IMF Country Report 13/35) for a recent analysis of Colombia's growing trade and financial linkages with the rest of the world.

Box. Illustrative Adverse Scenario

An adverse illustrative scenario developed by staff suggests that Colombia could experience an external financing shortfall in 2013 or 2014 on the order of US$6.9 billion on average (equivalent to about 580 percent of quota) from a set of shocks that hit the country in either of those years. As in the staff report for the FCL arrangement that expired recently (IMF Country Report No. 11/162), the scenario assumes concurrent shocks within a year to both the current and capital accounts of the balance of payments resulting from a deterioration in global financial conditions and lower global growth. The shocks are assumed to lower commodity prices (which are a key source of vulnerability for Colombia), remittances, and access to international capital markets by the private and public sectors.

The main assumptions underlying this illustrative adverse scenario mirror those used for in the previous FCL for Colombia and are as follows:

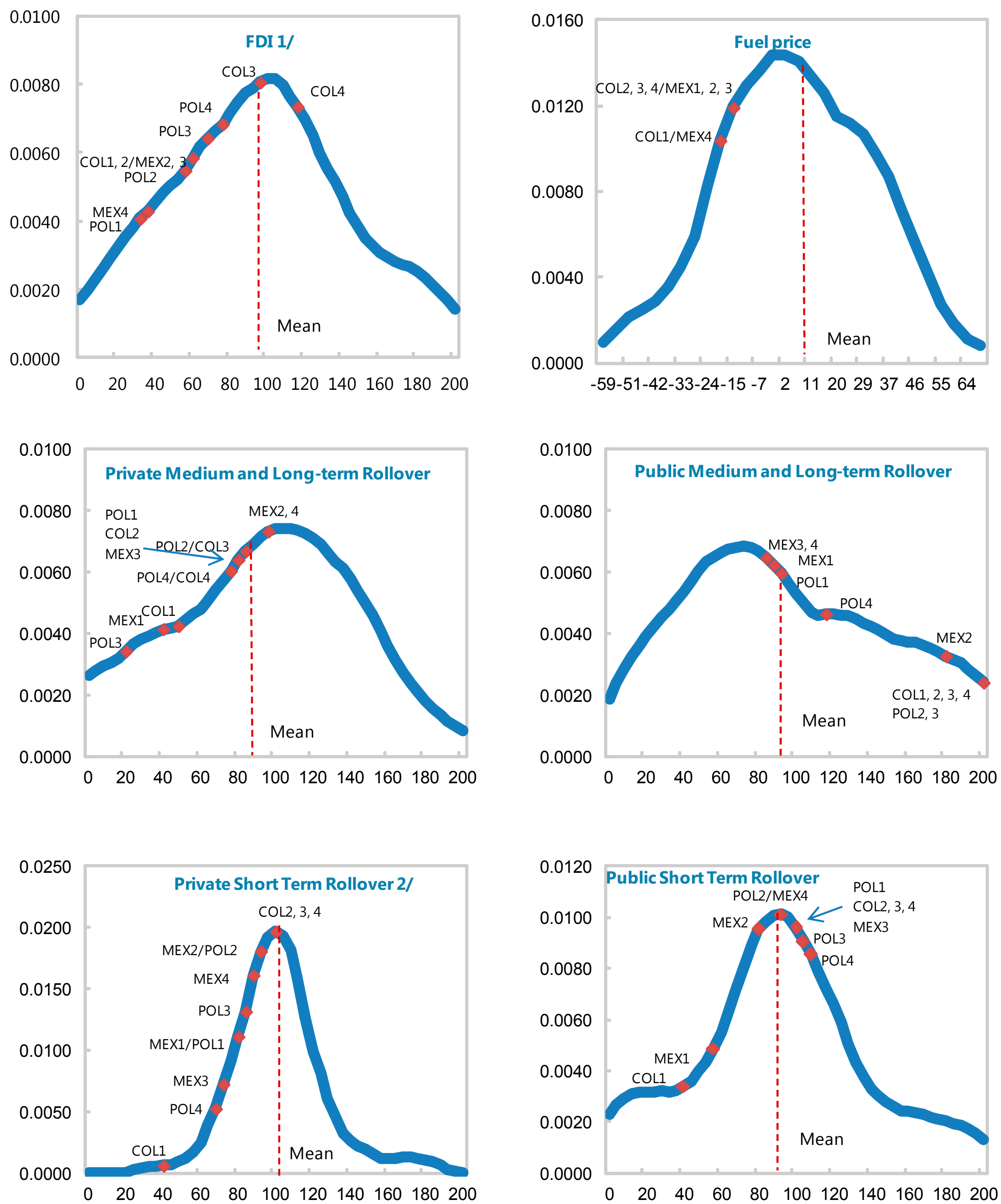
- A decline of 15 percent in world oil prices and 7.5 percent in the prices of other commodities relative to the 2013−14 baseline.
- A decline of 7.5 percent in remittances relative to the 2013−14 baseline.
- A fall in FDI inflows of 10 percent relative to the 2013−14 baseline.
- A ceiling on rollover rates on short term debt equal to 100 percent.
- Declines of 15 percent in medium-term inflows to the non-financial private sector and of 25 percent in inflows to the financial private sector, relative to the 2013−14 baseline.
- A decline of 10 percent in medium-term inflows to the public sector relative to the 2013−14 baseline.

These adverse shocks are smaller in scale than those experienced by Colombia during the global financial crisis of 2008–09; on that occasion, world oil prices declined by more than 35 percent and non-fuel commodity prices fell by 16 percent; net FDI and remittance flows to Colombia declined by 50 percent and 14½ percent, respectively; and inflows of short-term public and private debt fell short of repayments by around 38 and 28 percentage points, respectively. More generally, the size of the shocks assumed in the adverse scenario are similar to those assumed in the scenarios constructed for other FCL requests and also in line with cross-country data on external shocks to emerging market economies (Figure 4).

REVIEW OF QUALIFICATION

17. Staff assesses that Colombia continues to meet the qualification criteria identified in paragraph 2 of the FCL decision on access to Fund resources under an FCL arrangement. As noted, Colombia has very strong economic fundamentals and institutional policy frameworks (comprising an inflation targeting framework, a flexible exchange rate, a fiscal policy structural balance rule for the central government, and financial system oversight based on a sound regulatory and supervisory framework). Colombia also has a sustained track record of implementation of very

Figure 4. FCL Cases Compared with Distribution of Historical Shocks to Emerging Market Economies



Source: Fund staff estimates.

1/ X-axis for FDI is change relative to preceding 3-year average, for fuel price is growth rate, Y-axis is probability density.

2/ X-axis is rollover rate, Y-axis is probability density.

strong policies and the authorities are firmly committed to maintaining such policies going forward.[2] During the Board discussion of the 2012 Article IV Consultation (concluded on January 23, 2013), Executive Directors commended the authorities for their very strong policy framework and skillful macroeconomic management (IMF Country Report 13/35). Staff's assessment of Colombia's qualification is based, in particular, on the following criteria:

- **Sustainable external position.** Colombia's external debt is low (less than 22 percent of GDP at end-2012). Staff's updated external debt sustainability analysis shows that Colombia's external debt ratios would decline further in the coming years and remain manageable even under large negative shocks. Based on the latest WEO projections for commodity prices, staff envisages that the external current account deficit will stabilize at about 2½ percent of GDP over the medium term, and that the real effective exchange rate will be broadly in line with fundamentals.

- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, mostly in the form of net flows of foreign direct investment (which rose from US$5 billion to US$16.1 billion, 4½ percent of GDP, between 2011 and 2012).

- **Track-record of steady access by the sovereign to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. In January 2013, Colombia placed a 10-year bond for US$1 billion in the international market at an all-time low interest rate of 2.7 percent. All major credit rating agencies upgraded Colombia's sovereign rating to investment grade level in recent years. Sovereign spreads remain low at about 140 basis points (compared to 270 basis points on average for emerging economies), while CDS spreads (at around 90 basis points) are close to historical lows and at par with other highly rated Latin American sovereigns.

- **Reserve position.** Gross international reserves increased by over US$9 billion during the last FCL arrangement and reached US$39.6 billion as of April 2013. This level is broadly equivalent to coverage of 6½ months of imports and over 100 percent of the sum of short term external debt at remaining maturity plus the projected current account deficit, which is relatively comfortable. At the same time, as a share of GDP, reserve ratios are slightly below the level they had in 2007.

- **Sound public finances, including a sustainable public debt position.** The authorities have demonstrated a commitment to fiscal sustainability. Fiscal policy has been prudent and, since 2011, has been guided by a structural balance rule, which has resulted in fiscal consolidation. Staff's updated debt sustainability analysis suggests that public debt (an estimated 32½ percent of GDP at end-2012) would continue to decline in the coming years and that the debt trajectory

[2] The Executive Board last assessed Colombia's adherence to the FCL qualification criteria on May 4, 2012 during the review under the FCL arrangement for 500 percent of quota that expired on May 5, 2013 (IMF Country Report 12/274).

would remain manageable under adverse shocks. Moreover, efforts to strengthen the fiscal framework continue, including through the recent comprehensive tax reform.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.** Inflation is low (2 percent y/y in April 2013) and medium-term inflation expectations are firmly anchored within the official target range of 2–4 percent. The authorities remain committed to their inflation targeting framework and flexible exchange rate.

- **Absence of systemic bank solvency problems that pose an immediate threat of a banking crisis.** The 2012 FSAP Update found that Colombia's financial system is sound, with good levels of liquidity and capitalization, strong credit quality, and profitable banks. The financial system has remained resilient to financial turmoil in advanced economies.

- **Effective financial sector supervision.** Colombia's regulatory and supervisory frameworks for the financial system are sound and supported by a well designed safety net. All financial institutions are effectively supervised. The authorities continue to improve the framework, including by further strengthening capital standards.

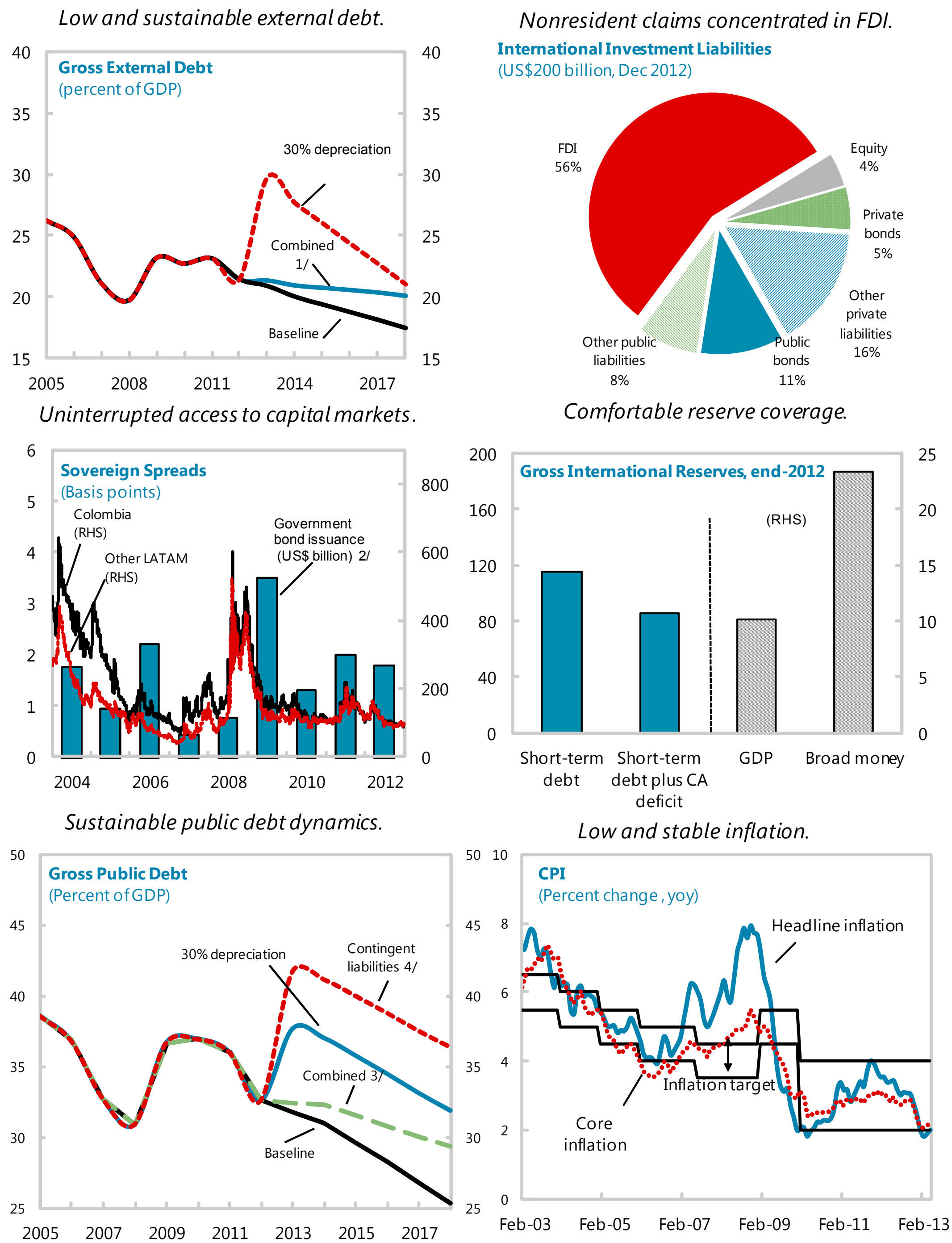
- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities provide all relevant data to the public on a timely basis.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

18. Access under the proposed two-year FCL arrangement for Colombia (equivalent to SDR 3.87 billion or 500 percent of quota) would have a small effect on the Fund's liquidity. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia (see supplement assessing the impact on the Fund's finances and liquidity position).

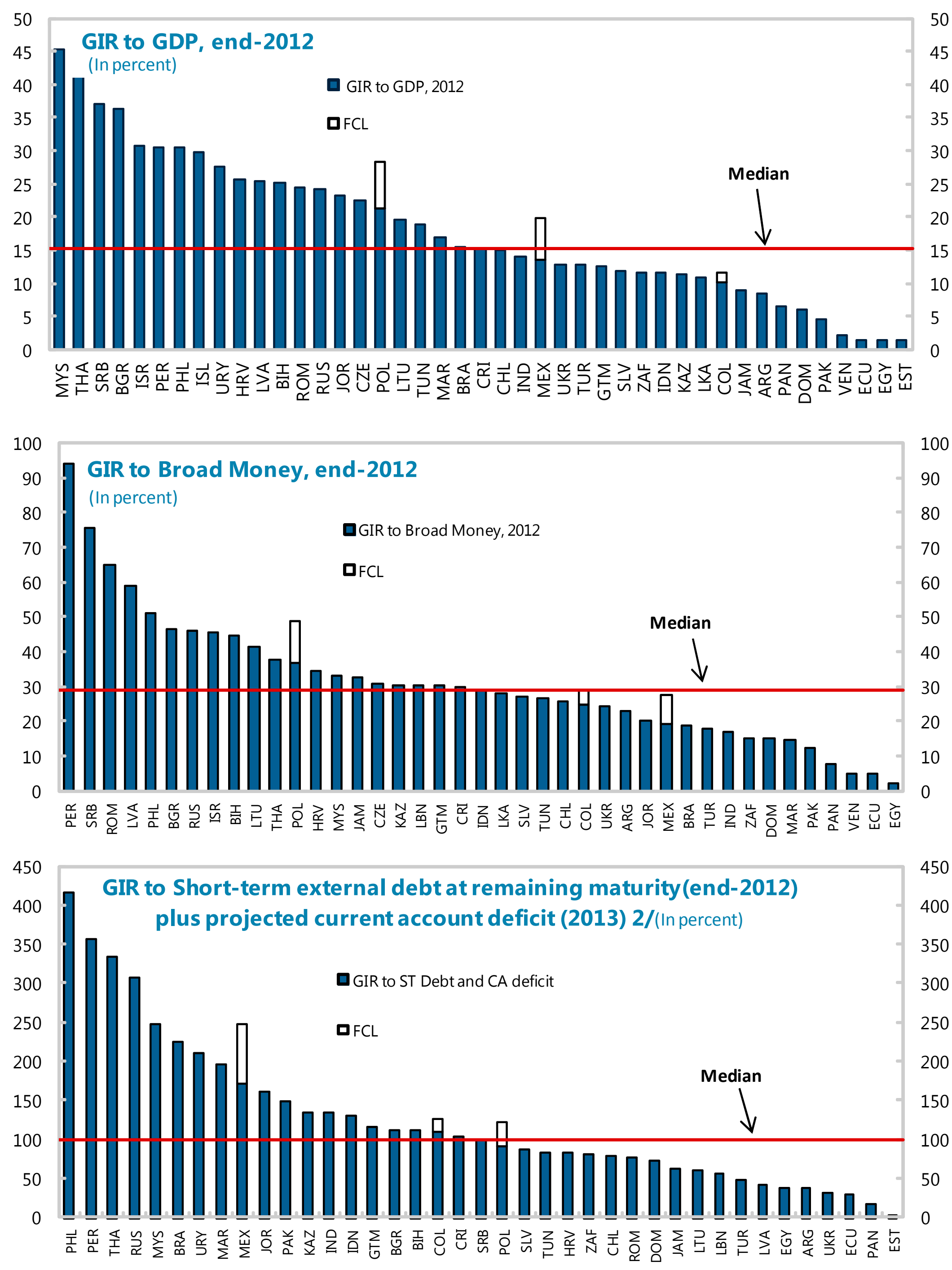
19. The authorities have indicated that they intend to continue to treat the FCL arrangement as precautionary. Nevertheless, even if Colombia were to draw all the resources available under the requested FCL arrangement, its capacity to meet its financial obligations to the Fund would remain strong. Colombia has an excellent track record of meeting its financial obligations, the government has a strong commitment to macroeconomic stability and prudent policies, and the economy's medium-term growth prospects are good. Even if the adverse scenario were to materialize, Colombia's external debt would remain on a sustainable medium-term path, and debt service would continue to be manageable.

Figure 5. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and Fund staff estimations.
1/ Combined permanent ¼ standard deviation shocks applied to interest rate, growth, and non-interest current account balance.
2/ Includes data through end 2012.
3/ Combined permanent ¼ standard deviation shocks applied to real interest rate, growth, and primary balance.
4/ One-time 10 percent of GDP increase in debt-creating liabilities.

Figure 6. Colombia: Reserve Coverage in an International Perspective 1/



Sources: World Economic Outlook; IFS; and Fund staff estimates.

1. The reserve metric proposed in "Assessing Reserve Adequacy" (See www.imf.org under "Publications") stands at 155 percent for Colombia, compared to a suggested adequate range of 100-150 percent.

2. GIR at the end of 2012 in percent of Short Term debt at remaining maturity and projected current account deficit for 2013. The current account is set to zero if it is in surplus.

20. The authorities are aware of the safeguards requirements for FCL arrangements. They have provided authorization for PricewaterhouseCoopers (the external auditor) to discuss directly with Fund staff the results of the external audit of the 2012 financial statements of the Banco de la República (the central bank) and provide copies of these audited financial statements and of the external auditor's written observations concerning internal and financial reporting matters.

STAFF APPRAISAL

21. Staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong policy frameworks and fundamentals, and the Colombian authorities have a solid track record of sound policy management, and are firmly committed to maintaining prudent policies and continue strengthening policy buffers.

22. Staff recommends approval of a two-year FCL arrangement for the equivalent of SDR 3.87 billion (500 percent of quota). While Colombia continues to have very strong underlying fundamentals and policies, risks to the global outlook have been more persistent than previously anticipated. A new FCL arrangement for 500 percent of quota, which the authorities intend to treat as precautionary, would provide an appropriate buffer against the materialization of those risks (including lower oil prices). The authorities' intention to continue rebuilding policy buffers provides comfort that they will be in a position to stop relying on contingent Fund financing when risks to the global outlook recede.

23. Staff deems that the proposed FCL arrangement carries low risks to the Fund. The proposed arrangement will have a small effect on the Fund's liquidity and while Colombia intends to treat the FCL as precautionary, the Fund's credit exposure to Colombia would remain moderate even with a drawing. Risks are further contained by Colombia's very strong debt-servicing record and manageable external debt service profile.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (millions), 2012	46.6	Physicians (per 1,000 people), 2010	1.47
GDP, 2012		Adult illiteracy rate (ages 15 and older), 2009	6.8
per capita (US$)	7,872	Gross primary school enrollment rate, 2010	115.4
in billions of COP	656,482	Sustainable access to safe water, 2006	
in billions of US$	366.8	(percent of population)	92.0
Unemployment rate (SA), March 2013 (percent)	10.3	Gini coefficient, 2012	53.9
Life expectancy at birth (years), 2010	73.4	Poverty rate ($2 a day (PPP)), 2010 1/	15.8
Under 5 mortality rate (per 1,000 live births), 2010	21.7	Extreme poverty rate ($1.25 a day (PPP)), 2010 1/	8.2
Net Foreign direct investment, 2012 (US$ millions)	16,071	Public Debt (in percent GDP) , 2012	32.7
Net Foreign direct investment (in percent GDP)	4.4	o/w external	12.6

II. Economic Indicators

	2008	2009	2010	2011	Est. 2012	Proj. 2013	Proj. 2014
	(Percentage changes, unless otherwise indicated)						
National income and prices							
Real GDP	3.5	1.7	4.0	6.6	4.0	4.1	4.5
GDP deflator	7.6	3.4	3.6	6.2	2.5	2.8	2.9
Consumer prices (average)	7.0	4.2	2.3	3.4	3.2	2.2	3.0
Consumer prices (end of period)	7.7	2.0	3.2	3.7	2.4	2.4	3.0
External sector (on the basis of US$)							
Exports (f.o.b.)	26.0	-11.7	20.0	42.5	6.0	2.1	5.9
Imports (f.o.b.)	20.5	-16.2	22.2	35.1	7.0	3.9	4.1
Terms of trade (deterioration -)	10.3	-10.2	10.3	13.5	2.7	-2.8	-1.5
Real effective exchange rate (eop, depreciation -)	-2.7	4.7	5.1	3.0	6.1	…	…
Central government							
Revenue	16.0	2.8	-2.8	25.7	13.6	11.1	5.0
Expenditure	12.9	13.6	-1.9	16.4	9.6	10.8	4.1
Money and credit							
Broad money	18.5	8.1	11.5	18.9	16.1	11.2	12.4
Credit to the private sector	14.0	0.9	16.8	22.9	16.2	14.0	13.3
	(In percent of GDP)						
Central government balance	-2.3	-4.1	-3.9	-2.8	-2.4	-2.4	-2.2
Combined public sector balance 2/	-0.1	-2.7	-3.3	-2.0	0.3	-1.0	-0.8
Public debt 3/	30.9	36.7	36.9	36.0	32.7	31.8	31.1
Public debt, excluding Ecopetrol	30.9	35.6	35.7	35.0	31.5	30.7	30.0
Gross domestic investment	23.5	22.4	22.0	23.5	23.4	23.1	22.7
Gross national savings	20.6	20.3	19.0	20.6	20.3	20.1	20.0
Current account (CA) (deficit -)	-2.9	-2.1	-3.1	-2.9	-3.1	-3.0	-2.7
External debt	19.7	23.2	22.7	23.2	21.4	20.9	20.0
Of which: public sector	12.5	16.0	13.9	13.1	12.6	12.8	12.4
GIR in percent of short-term (ST) debt 4/	207.3	242.5	198.7	142.7	164.5	173.4	161.9
	(In percent of exports of goods and services)						
External debt service	32.0	37.9	30.2	28.4	39.6	39.4	38.0
Of which: Public sector	12.7	11.7	11.0	8.9	11.4	8.8	9.3
Of which: Interest payments	7.7	8.1	7.5	6.0	6.2	6.8	6.1
Of which: Public sector	5.5	5.7	5.4	4.1	4.4	4.1	3.8
	(In millions of U.S. dollars)						
Changes in gross international reserves	3,065	1,321	3,086	3,834	5,086	3,419	1,868
Exports (f.o.b.)	38,534	34,018	40,828	58,171	61,637	62,952	66,636
Of which: Petroleum products	12,204	10,254	16,499	28,421	31,584	33,104	35,173
Coffee	1,883	1,543	1,884	2,608	1,910	1,607	1,808
Gross international reserves	23,672	24,992	28,078	31,912	36,998	40,417	42,285
Share of ST debt at remaining maturity + CA deficit	144	131	119	94	109	117	112
In months of imports of goods and services	7.4	6.4	5.5	5.8	6.4	6.8	6.7

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and Fund staff estimates and projections.

1/ Poverty and extreme poverty rates estimated by the World Bank as the percentage of the population living on less than US$2 and US$1.25 a day at 2005 puchasing power parity, respectively. Under the authorities' poverty and extreme poverty line definitions, the poverty and extreme poverty rates stood at 32.7 and 10.4 percent of the population, respectively, in 2012.

2/ Includes the quasi-fiscal balance of Banco de la República, Fogafin balance, net cost of financial system restructuring, and statistical discrepancy.

3/ Includes Ecopetrol and Banco de la República's outstanding external debt.

4/ Includes external debt of remaining maturity of less than 1 year.

Table 2. Colombia: Summary Balance of Payments

					Est.	Projections				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current account balance	**-6,746**	**-4,964**	**-8,809**	**-9,525**	**-11,415**	**-11,528**	**-11,278**	**-11,645**	**-12,298**	**-12,644**
Trade balance	971	2,545	2,363	6,187	6,005	5,167	6,479	6,075	5,430	5,081
Exports, f.o.b.	38,534	34,018	40,828	58,171	61,637	62,952	66,636	69,823	72,267	75,182
Coffee	1,883	1,543	1,884	2,608	1,910	1,607	1,808	2,004	1,768	1,768
Petroleum products	12,204	10,254	16,499	28,421	31,584	33,104	35,173	36,619	37,491	38,663
Non-traditional	17,101	14,617	14,146	16,427	17,781	18,642	19,748	20,928	22,320	23,664
Other	7,346	7,604	8,299	10,715	10,362	9,600	9,908	10,272	10,689	11,087
Imports, f.o.b.	37,563	31,473	38,464	51,984	55,633	57,785	60,157	63,748	66,837	70,101
Services (net)	-3,072	-2,821	-3,623	-4,647	-5,337	-5,107	-5,043	-5,350	-5,660	-5,976
Income (net)	-10,157	-9,302	-12,024	-16,003	-16,682	-16,211	-17,496	-17,348	-17,262	-17,173
Interest (net)	-2,070	-2,514	-2,932	-3,215	-3,157	-4,044	-3,757	-3,520	-3,050	-2,567
Of which: Public sector	-1,502	-1,779	-2,263	-2,318	-2,372	-2,628	-2,523	-2,342	-2,048	-1,884
Other Income (net)	-8,087	-6,787	-9,091	-12,789	-13,525	-12,167	-13,739	-13,828	-14,212	-14,606
Current transfers (net)	5,512	4,613	4,475	4,938	4,599	4,623	4,782	4,979	5,194	5,424
Financial account balance	**9,492**	**6,255**	**11,825**	**13,106**	**16,385**	**14,948**	**13,145**	**13,477**	**13,782**	**14,237**
Public sector (net)	-281	7,285	4,781	2,797	3,097	3,922	1,995	1,727	1,730	1,653
Nonfinancial public sector	-23	7,484	4,669	2,871	3,755	3,354	1,769	1,737	1,749	1,701
Medium- and long-term (net)	998	7,360	1,338	3,038	3,260	2,886	1,304	1,321	1,380	1,372
Disbursements	3,246	8,918	3,357	5,077	6,787	5,046	4,282	4,841	3,673	5,462
Amortization	2,248	1,559	2,019	2,039	3,526	2,160	2,978	3,519	2,293	4,090
Other long-term flows	0	1	-7	-41	-40	-40	-40	-40	-40	-40
Short term 1/	-1,021	124	3,338	-127	534	507	506	455	410	369
Financial public sector	-258	-199	112	-73	-658	569	226	-10	-19	-48
Private sector (net)	9,773	-1,029	7,045	10,309	13,289	11,025	11,150	11,750	12,052	12,584
Nonfinancial private sector (net)	8,785	215	4,716	8,425	13,481	11,312	11,124	11,712	12,012	12,541
Direct investment	8,110	3,789	-84	5,158	16,071	11,673	10,912	11,010	11,112	11,417
Direct investment abroad	2,486	3,348	6,842	8,280	-248	3,598	3,848	3,911	3,979	4,052
Direct investment in Colombia	10,596	7,137	6,758	13,438	15,823	15,271	14,760	14,921	15,091	15,469
Leasing finance	277	733	22	541	226	142	179	221	263	305
Long-term loans	408	642	3,334	2,499	-4,228	-1,035	-804	429	477	506
Short term 2/	-11	-4,949	1,444	228	1,412	532	837	51	161	313
Financial private sector (net)	988	-1,245	2,328	1,884	-192	-286	26	38	39	43
Valuation changes/Contribution to FLAR 3/	442	-27	-50	89	-338	0	0	0	0	0
Net errors and omissions	-123	56	119	163	454	0	0	0	0	0
Changes in GIR 4/ 5/	**3,065**	**1,321**	**3,086**	**3,834**	**5,086**	**3,419**	**1,868**	**1,833**	**1,483**	**1,593**
Memorandum Items:										
Current account balance (in percent of GDP)	-2.9	-2.1	-3.1	-2.9	-3.1	-3.0	-2.7	-2.7	-2.6	-2.6
Oil Price (Colombian mix US$ per barrel)	90.2	56.6	73.1	99.4	104.8	102.4	97.4	93.1	90.2	88.5
Gross international reserves (in US$ billion)	23.7	25.0	28.1	31.9	37.0	40.4	42.3	44.1	45.6	47.2
In percent of short-term external debt 6/	421.5	633.6	354.9	301.4	360.5	386.4	388.8	394.2	397.6	401.3
In percent of ST external debt plus CA deficit	144.5	130.7	118.7	94.5	108.7	116.9	112.0	131.0	126.5	138.2
In months of prospective GNFS imports	7.4	6.4	5.5	5.8	6.4	6.8	6.7	6.7	6.9	6.8
Nominal GDP (US$ billion)	235.3	231.6	284.9	327.6	366.8	389.6	413.5	439.0	466.2	495.9

Sources: Banco de la República; and Fund staff estimates and projections.

1/ Mainly deposit flows of public sector entities abroad.

2/ Includes net portfolio investment.

3/ FLAR is *Fondo Latinoamericano de Reservas*.

4/ IMF definition.

5/ Figures for 2009 include SDR allocation to Colombia amounting to US$972 million.

6/ Original maturity of less than 1 year. Stock at the end of the previous period.

Table 3. Colombia: External Financing Requirements and Sources

(In millions of U.S. dollars)

	2010	2011	2012	Staff Projections 2013		2014	
			Prelim.	Baseline	Adverse Scenario	Baseline	Adverse Scenario
Gross external financing requirements	**22,203**	**27,491**	**38,862**	**37,444**	**39,405**	**36,452**	**40,287**
External current account deficit	8,809	9,525	11,415	11,528	16,909	11,278	16,980
Debt amortization	10,308	14,132	22,360	22,496	22,496	23,306	23,306
Medium and long term debt	6,364	6,219	11,771	12,234	12,234	12,845	12,845
Public sector 1/	2,186	2,069	3,546	2,195	2,195	3,025	3,025
Private sector	4,178	4,150	8,225	10,039	10,039	9,821	9,821
Non financial	3,075	2,176	7,235	6,901	6,901	6,699	6,699
Financial	1,102	1,974	989	3,138	3,138	3,121	3,121
Short-term debt 2/	3,944	7,913	10,589	10,262	10,262	10,461	10,461
Public sector	339	995	1,160	1,000	1,000	1,000	1,000
Private sector	3,605	6,917	9,429	9,262	9,262	9,461	9,461
Gross reserves accumulation 3/ 4/	3,086	3,834	5,086	3,419	0	1,868	0
Available external financing	**22,203**	**27,491**	**38,862**	**37,444**	**33,453**	**36,452**	**32,396**
Foreign direct investment (net)	-84	5,158	16,071	11,673	10,146	10,912	9,436
o/w inward (net)	6,758	13,438	15,823	15,271	13,743	14,760	13,284
Medium and long-term debt disbursements	12,766	13,972	12,987	14,796	12,531	13,749	11,585
Public sector 1/	3,560	5,156	6,907	5,650	5,085	4,554	4,099
Private sector	9,206	8,816	6,080	9,146	7,446	9,195	7,486
Non financial	6,410	4,674	3,007	5,866	4,986	5,895	5,011
Financial	2,797	4,141	3,073	3,280	2,460	3,300	2,475
Public sector use of external assets 5/	1,829	-1,047	513	507	507	506	506
Short-term debt 6/	7,913	10,589	10,262	10,461	10,262	10,876	10,461
Public sector	995	1,160	1,000	1,000	1,000	1,000	1,000
Private sector	6,917	9,429	9,262	9,461	9,262	9,876	9,461
Other capital flows (net) 7/	-221	-1,181	-972	7	7	408	408
Financing gap analysis (in US$ millions, unless specified)							
Financing needs (A+B-C)					**5,952**		**7,891**
In percent of quota					*511*		*677*
A. Current account shock					5,381		5,703
In percent of quota					*462*		*489*
B. Capital account shock					3,991		4,056
In percent of quota					*342*		*348*
Combined shock					**9,372**		**9,758**
In percent of quota					*804*		*837*
C. Reserve accumulation in baseline					3,419		1,868
In percent of quota					*293*		*160*
Memorandum items:							
100 percent of quota (in SDR million)					774		774
100 percent of quota (in US$ million)					1,165		1,165
Gross international reserves 4/	28,078	31,912	36,998	40,417	36,998	42,285	40,417
Gross international reserves / (st debt at remaining maturity + ca deficit)	118.7	94.5	108.7	116.9	107.0	112.0	107.1
Gross international reserves (months of imports of G&S)	5.5	5.8	6.4	6.8	6.2	6.7	6.4

Sources: Banco de la República; and Fund staff estimates.

1/ Including financial public sector.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ Estimate for 2009 includes the SDR allocation (US$972 million).
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
5/ Assumes build-up of Ecopetrol dividends as a safeguard against long-term fiscal liabilities.
6/ Original maturity of less than 1 year. Stock at the end of the current period.
7/ Includes all other net financial flows (i.e. pension funds, other portfolio flows), Colombia's contribution to FLAR, and errors and omissions.

Table 4. Colombia: Operations of the Central Government 1/

(In percent of GDP)

	2008	2009	2010	2011	Prel. 2012	Projections 2013	2014	2015	2016	2017
Total revenue	**15.6**	**15.3**	**13.8**	**15.3**	**16.3**	**16.9**	**16.5**	**16.1**	**16.0**	**15.9**
Current revenue	**15.6**	**15.3**	**13.8**	**15.3**	**16.3**	**16.9**	**16.5**	**16.1**	**16.0**	**15.9**
Tax revenue	13.4	12.9	12.3	13.6	14.5	14.5	14.2	14.1	14.0	13.9
Net income tax and profits 2/	5.1	5.6	4.8	5.4	6.7	6.6	6.6	6.4	6.5	6.5
Goods and services	5.9	5.4	5.6	6.0	5.8	5.9	6.0	6.0	6.0	6.0
Value-added tax	5.6	5.1	5.3	5.7	5.5	5.5	5.5	5.5	5.6	5.5
Gasoline tax	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.4	0.4
International trade	0.9	0.8	0.9	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Financial transaction tax	0.7	0.6	0.6	0.8	0.8	0.8	0.5	0.5	0.3	0.3
Stamp and other taxes	0.8	0.5	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	2.2	2.4	1.5	1.7	1.8	2.4	2.4	2.0	2.0	2.0
Property income	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	2.0	2.2	1.4	1.5	1.7	2.2	2.2	1.9	1.9	1.8
Total expenditure and net lending	**17.9**	**19.4**	**17.7**	**18.1**	**18.6**	**19.3**	**18.7**	**18.2**	**17.8**	**17.7**
Current expenditure	**14.4**	**15.6**	**14.3**	**13.8**	**14.2**	**14.6**	**14.8**	**14.7**	**14.7**	**14.6**
Wages and salaries	2.0	2.2	2.1	2.0	2.1	2.2	2.1	2.1	2.1	2.1
Goods and services	1.2	1.0	1.0	1.0	0.8	0.8	0.8	0.8	0.8	0.7
Interest	3.2	3.0	2.7	2.7	2.6	2.6	2.6	2.6	2.4	2.5
External	0.8	0.8	0.7	0.6	0.5	0.5	0.7	0.8	0.6	0.6
Domestic	2.4	2.2	2.1	2.1	2.1	2.0	1.9	1.8	1.7	1.7
Current transfers	8.0	9.4	8.4	8.1	8.7	9.0	9.3	9.3	9.3	9.3
Of which: Fuel subsidies 3/	0.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	**3.5**	**3.7**	**3.3**	**4.3**	**4.3**	**4.7**	**3.9**	**3.4**	**3.1**	**3.1**
Fixed capital formation	2.2	2.3	1.9	2.9	2.9	3.3	2.3	1.9	1.6	1.6
Capital transfers	1.2	1.4	1.4	1.4	1.4	1.4	1.6	1.6	1.5	1.5
Overall balance	**-2.3**	**-4.1**	**-3.9**	**-2.8**	**-2.4**	**-2.4**	**-2.2**	**-2.0**	**-1.8**	**-1.8**
Memorandum items:										
Oil-related revenues 4/	1.2	1.6	0.8	1.7	2.7	3.1	3.1	2.7	2.7	2.6
Structural balance 5/	-3.1	-3.4	-3.6	-3.7	-2.9	-2.6	-2.3	-2.3	-2.0	-1.9
Adjusted overall balance 6/	-2.6	-4.5	-4.6	-3.3	-2.7	-2.7	-2.4	-2.2	-2.0	-1.9
Non-oil balance	-3.6	-5.6	-4.6	-4.6	-5.5	-5.2	-5.1	-4.7	-4.5	-4.4
Primary balance	0.9	-1.1	-1.1	-0.1	0.2	0.2	0.4	0.5	0.6	0.7
Nominal GDP (in COP trillion)	480.1	504.6	543.7	615.7	656.5	702.2	755.4	811.9	872.2	937.3

Sources: Ministry of Finance; Banco de la República; and Fund staff estimates and projections.

1/ Includes central administration only.

2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.

3/ Payments for fuel subsidies granted in 2007-08 were distributed across the 2007-2009 budgets. A fuel price stabilization fund was created at end-2008 to eliminate fuel subsidies.

4/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.

5/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

6/ Excludes private pension transfers from revenues.

Table 5. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP)

	2008	2009	2010	2011	Prel. 2012	Projections 2013	2014	2015	2016	2017
Total revenue	**26.4**	**26.7**	**26.2**	**26.9**	**28.3**	**28.1**	**27.5**	**27.0**	**26.7**	**26.6**
Tax revenue	19.3	18.4	18.7	19.3	18.9	18.9	18.6	18.5	18.4	18.3
Nontax revenue	7.1	8.3	7.4	7.6	9.4	9.1	8.9	8.5	8.4	8.3
Financial income	1.3	1.7	1.2	0.9	1.1	0.9	0.9	0.7	0.7	0.7
Operating surplus of public enterprises	0.3	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other 2/	5.4	6.5	6.2	6.6	8.1	8.2	8.0	7.7	7.6	7.5
Total expenditure and net lending 3/	**26.3**	**29.3**	**29.3**	**28.7**	**27.8**	**29.1**	**28.4**	**27.8**	**27.5**	**27.1**
Current expenditure	21.3	23.1	22.4	20.6	20.8	21.2	21.4	21.2	21.1	20.9
Wages and salaries	5.5	5.8	5.8	5.2	5.1	5.4	5.4	5.4	5.5	5.5
Goods and services	3.4	3.2	3.3	2.9	2.9	2.9	2.9	2.8	2.9	2.8
Interest	3.5	3.4	2.9	2.8	2.7	2.6	2.7	2.6	2.4	2.4
External	0.8	0.8	0.7	0.6	0.6	0.6	0.7	0.8	0.7	0.7
Domestic	2.6	2.5	2.2	2.2	2.1	2.0	1.9	1.8	1.7	1.7
Transfers to private sector	7.4	8.8	8.1	7.4	7.6	8.0	8.2	8.2	8.2	8.2
Of which: Fuel subsidies 4/	0.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 5/	1.5	2.0	2.4	2.2	2.5	2.3	2.3	2.2	2.1	2.0
Capital expenditure	5.0	6.2	6.8	8.1	7.0	7.8	7.0	6.6	6.3	6.3
Statistical discrepancy	-0.3	-0.2	-0.2	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-0.3**	**-2.8**	**-3.3**	**-2.0**	**0.2**	**-1.0**	**-0.9**	**-0.8**	**-0.7**	**-0.6**
Quasi-fiscal balance (BR cash profits)	0.3	0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.1
Fogafin balance	0.1	0.2	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.0
Net cost of financial restructuring 6/	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-0.1**	**-2.7**	**-3.3**	**-2.0**	**0.3**	**-1.0**	**-0.8**	**-0.7**	**-0.6**	**-0.5**
Overall financing	0.1	2.7	3.3	2.0	-0.3	1.0	0.8	0.7	0.6	0.5
Foreign, net	0.3	1.6	1.7	1.2	0.7	0.8	0.3	0.3	0.3	0.3
Domestic, net	-0.2	0.9	1.5	0.9	-1.1	0.2	0.5	0.4	0.3	0.1
Privatization (including concessions)	0.1	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall structural balance 7/	-1.7	-1.5	-2.9	-3.5	-0.4	-1.3	-1.1	-1.1	-0.9	-0.6
Adjusted overall balance 8/	-0.5	-3.1	-4.0	-2.4	0.2	-1.3	-1.1	-0.9	-0.8	-0.6
Non-oil balance	-3.2	-5.5	-5.5	-5.5	-4.5	-5.6	-5.4	-5.0	-4.9	-4.6
Primary balance 9/	3.3	0.7	-0.4	0.8	2.9	1.6	1.8	1.9	1.8	1.9
Oil-related revenues 10/	3.0	2.9	2.3	3.6	4.5	4.9	4.8	4.3	4.3	4.1
Total public debt 11/	30.9	36.7	36.9	36.0	32.7	31.8	31.1	29.7	28.3	26.8
Nominal GDP (in COP trillions)	480.1	504.6	543.7	615.7	656.5	702.2	755.4	811.9	872.2	937.3

Sources: Ministry of Finance; Banco de la República; and Fund staff estimates and projections.

1/ Combined public sector includes the central, regional and local governments, social security, and public sector enterprises. From 2008 onwards, including projections, figures exclude Ecopetrol operations and privatized health care.

2/Includes royalties, dividends and social security contributions.

3/ Expenditure reported on commitments basis.

4/ Payments for fuel subsidies granted in 2007-08 were distributed across the 2007-2009 budgets. At end-2008, a fuel price stabilization fund was created to eliminate fuel subsidies.

5/ Includes adjustments to put spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.

6/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.

7/Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

8/ Excludes private pension transfers from revenues.

9/ Includes statistical discrepancy.

10/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.

11/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 6. Colombia: Monetary Survey

	2008	2009	2010	2011	2012
	(In billions of Colombian pesos, unless otherwise indicated)				
Central Bank					
Net Foreign Assets	54,661	50,526	53,265	61,750	65,355
Gross official reserve assets	53,720	51,650	54,583	63,566	65,820
Short-term foreign liabilities	613	562	844	1,575	403
Other net foreign assets	2,106	1,955	1,865	2,117	2,096
Net domestic assets	-18,403	-10,958	-8,373	-10,393	-8,873
Net credit to the public sector	-1,792	622	-2,098	-4,624	-8,008
Net credit to the financial system	-143	-419	1,516	3,078	1,831
Other	-16,468	-11,160	-7,792	-8,847	-2,697
Monetary base	36,195	39,547	44,878	51,342	56,464
Currency in circulation	24,352	25,671	29,674	33,367	35,063
Deposit money banks reserves	11,832	13,865	15,157	17,946	21,374
Other deposits	12	10	47	29	27
Financial system 1/					
Net foreign assets	49,670	48,267	44,392	47,389	53,144
In billions of US$	22.1	23.6	23.2	24.4	30.1
Net domestic assets	121,706	136,915	162,008	198,069	231,763
Net credit to public sector	16,150	32,352	33,782	32,455	34,824
Credit to private sector	149,366	150,766	176,020	216,410	251,572
Other net	-43,809	-46,203	-47,794	-50,797	-54,633
Broad money	171,376	185,182	206,399	245,458	284,907
	(Annual percentage change)				
y-o-y					
Credit to private sector	14.0	0.9	16.8	22.9	16.2
Currency	8.6	5.4	15.6	12.4	5.1
Monetary base	11.7	9.3	13.5	14.4	10.0
Broad money	18.5	8.1	11.5	18.9	16.1
	(In percent of GDP)				
Credit to private sector	31.1	29.9	32.4	35.1	38.3
Currency	5.1	5.1	5.5	5.4	5.3
Monetary base	7.5	7.8	8.3	8.3	8.6
Broad money	35.7	36.7	38.0	39.9	43.4
Memorandum items:					
Central bank inflation target	3.5-4.5	4.5-5.5	2.0-4.0	2.0-4.0	2.0-4.0
CPI inflation, eop	7.7	2.0	3.2	3.7	2.4
Nominal GDP (COP billions)	480,087	504,647	543,747	615,727	656,482

Sources: Banco de la República; and Fund staff estimates.
1/ Includes the Central Bank.

Table 7. Colombia: Medium-Term Outlook

	2008	2009	2010	2011	Prel. 2012	Projections 2013	2014	2015	2016	2017
Real GDP	3.5	1.7	4.0	6.6	4.0	4.1	4.5	4.5	4.5	4.5
Consumer prices										
End of period	7.7	2.0	3.2	3.7	2.4	2.4	3.0	3.0	3.0	3.0
Gross national savings	20.6	20.3	19.0	20.6	20.3	20.1	20.0	20.2	19.8	20.2
Private sector	15.8	17.0	15.5	14.6	13.2	13.5	14.1	14.6	14.4	14.7
Public sector 1/	4.8	3.3	3.5	5.9	7.1	6.6	5.9	5.6	5.4	5.5
Gross domestic investment	23.5	22.4	22.0	23.5	23.4	23.1	22.7	22.8	22.5	22.8
Private sector	18.6	16.6	15.4	15.6	16.8	15.7	16.3	16.8	16.7	17.1
Public sector 1/	4.9	5.8	6.7	7.8	6.6	7.4	6.5	6.0	5.7	5.6
External current account balance	-2.9	-2.1	-3.1	-2.9	-3.1	-3.0	-2.7	-2.7	-2.6	-2.6
Nonfinancial public sector 2/										
Revenue	26.4	26.7	26.2	26.9	28.3	28.1	27.5	27.0	26.7	26.6
Expenditure	26.3	29.3	29.3	28.7	27.8	29.1	28.4	27.8	27.5	27.1
Current expenditure	21.3	23.1	22.4	20.6	20.8	21.2	21.4	21.2	21.1	20.9
Capital expenditure	5.0	6.2	6.8	8.1	7.0	7.8	7.0	6.6	6.3	6.3
Primary balance 3/	3.2	0.6	-0.4	0.8	2.8	1.6	1.8	1.8	1.7	1.8
Overall balance 3/	-0.3	-2.8	-3.3	-2.0	0.2	-1.0	-0.9	-0.8	-0.7	-0.6
Combined public sector balance	-0.1	-2.7	-3.3	-2.0	0.3	-1.0	-0.8	-0.7	-0.6	-0.5
External financing	0.3	1.6	1.7	1.2	0.7	0.8	0.3	0.3	0.3	0.3
Domestic financing	-0.2	0.9	1.5	0.9	-1.1	0.2	0.5	0.4	0.3	0.1
Privatization	0.1	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
External current account balance	-2.9	-2.1	-3.1	-2.9	-3.1	-3.0	-2.7	-2.7	-2.6	-2.6
Trade balance	0.4	1.1	0.8	1.9	1.6	1.3	1.6	1.4	1.2	1.0
Exports	16.4	14.7	14.3	17.8	16.8	16.2	16.1	15.9	15.5	15.2
Imports	16.0	13.6	13.5	15.9	15.2	14.8	14.5	14.5	14.3	14.1
Capital and financial account balance	4.0	2.7	4.2	4.0	4.5	3.8	3.2	3.1	3.0	2.9
Public sector	-0.1	3.1	1.7	0.9	0.8	1.0	0.5	0.4	0.4	0.3
Private sector	4.2	-0.4	2.5	3.1	3.6	2.8	2.7	2.7	2.6	2.5
Net errors and omissions	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	1.1	0.6	1.1	1.1	1.5	0.9	0.5	0.4	0.3	0.3
Total public gross debt 4/	30.9	36.7	36.9	36.0	32.7	31.8	31.1	29.7	28.3	26.8
Domestic debt	18.4	20.6	23.1	23.0	20.0	19.0	18.6	17.7	16.7	15.6
External debt	12.5	16.0	13.9	13.1	12.6	12.8	12.4	12.0	11.6	11.2
Total public gross debt, excluding Ecopetrol	30.9	35.6	35.7	35.0	31.5	30.7	30.0	28.7	27.4	26.0
Total public net debt 5/	21.0	27.7	29.0	27.5	25.3	25.1	24.5	23.6	22.7	21.7
Memorandum items:										
Nominal GDP (billions of COP)	480,087	504,647	543,747	615,727	656,482	702,155	755,353	811,901	872,158	937,337
Crude oil, spot price	97.0	61.8	79.0	104.0	105.0	102.6	97.6	93.3	90.4	88.7
Crude oil, spot price (Colombian mix)	90.2	56.6	73.1	99.4	104.8	102.4	97.4	93.1	90.2	88.5

Sources: Colombian authorities; and Fund staff estimates and projections.

1/ The definition of public savings and investment changes starting in 2006 and includes only the general government.
2/ Excludes ECOPETROL for 2008-12.
3/ Includes statistical discrepancy.
4/ Includes debt of the non-financial public sector, including Ecopetrol, plus FOGAFIN and FINAGRO.
5/ Defined as gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of U.S. dollars unless otherwise indicated)

	2008	2009	2010	2011	Est. 2012
External indicators					
Exports of GNFS	42.7	38.2	45.3	63.0	66.9
Imports of GNFS	44.8	38.5	46.5	61.5	66.2
Terms of trade (12-month percent change)	10.3	-10.2	10.3	13.5	2.7
Current account balance	-6.7	-5.0	-8.8	-9.5	-11.4
In percent of GDP	-2.9	-2.1	-3.1	-2.9	-3.1
Capital and financial account balance	9.5	6.3	11.8	13.1	16.4
Of which: Foreign direct investment (net)	8.1	3.8	-0.1	5.2	16.1
Of which: Portfolio investment (net)	-0.9	-2.9	0.1	0.8	1.0
Total external debt	46.3	52.5	63.5	75.1	78.6
In percent of gross international reserves	195.6	210.1	226.3	235.3	212.6
Short-term external debt 2/	5.6	3.9	7.9	10.6	10.3
Of which: Public sector	0.6	0.3	1.0	1.2	1.0
Of which: Private sector	5.1	3.6	6.9	9.4	9.3
Amortization of MLT external debt (in percent of GNFS exports)	12.2	15.2	14.1	9.9	17.6
External interest payments (in percent of GNFS exports)	7.7	8.1	7.5	6.0	6.2
Gross international reserves 3/ 4/	23.7	25.0	28.1	31.9	37.0
In months of prospective GNFS imports	7.4	6.4	5.5	5.8	6.4
In percent of broad money	28.2	29.4	26.0	24.4	23.2
In percent of short-term external debt 2/	421.5	633.6	354.9	301.4	360.5
In percent of short-term external debt on residual maturity basis plus current account deficit	144.5	130.7	118.7	94.5	108.7
Nominal exchange rate (COP/US$, period average)	2,041	2,179	1,909	1,879	1,790
Real effective exchange rate (percentage change, + = appreciation)	5.0	-3.3	15.2	2.8	6.4

Sources: Banco de la República; and Fund staff estimates.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ Estimate for 2009 includes the SDR allocation (US$972 million).
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.

Table 9. Colombia: Public Sector Debt Sustainability Framework, 2009-2017

(In percent of GDP, unless otherwise indicated)

	Actual			Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	36.7	36.9	36.0	**32.7**	**31.8**	**31.1**	**29.7**	**28.3**	**26.8**	**0.5**
o/w foreign-currency denominated	16.0	13.9	13.1	12.6	12.8	12.4	12.0	11.6	11.2	
Change in public sector debt	5.8	0.3	-0.9	-3.3	-0.9	-0.8	-1.4	-1.4	-1.5	
Identified debt-creating flows (4+7+12)	-0.3	0.0	-2.8	-2.9	-1.1	-1.4	-1.3	-1.3	-1.4	
Primary deficit	-0.8	0.2	-1.0	-3.2	-1.6	-1.8	-1.8	-1.7	-1.8	
Revenue and grants	26.7	26.2	26.9	28.3	28.1	27.5	27.0	26.7	26.6	
Primary (noninterest) expenditure	25.9	26.4	26.0	25.1	26.4	25.8	25.2	25.0	24.8	
Automatic debt dynamics 2/	0.7	-0.2	-1.8	0.4	0.5	0.4	0.5	0.4	0.4	
Contribution from interest rate/growth differential 3/	1.9	0.2	-1.5	0.4	0.5	0.4	0.5	0.4	0.4	
Of which contribution from real interest rate	2.3	1.6	0.6	1.8	1.8	1.7	1.8	1.6	1.6	
Of which contribution from real GDP growth	-0.5	-1.4	-2.2	-1.4	-1.3	-1.3	-1.3	-1.2	-1.2	
Contribution from exchange rate depreciation 4/	-1.1	-0.4	-0.3	...	...	...	...	...	...	
Other identified debt-creating flows	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	6.0	0.3	1.9	-0.4	0.2	0.6	-0.1	-0.1	-0.1	
Public sector debt-to-revenue ratio 1/	137.2	141.2	133.8	115.6	113.4	112.9	110.2	105.8	100.9	
Gross financing need 6/	7.9	7.4	6.2	3.6	5.1	4.2	3.9	3.1	3.3	
in billions of U.S. dollars	18.3	21.0	20.3	13.3	19.8	17.4	17.3	14.7	16.3	
Scenario with key variables at their historical averages 7/				**32.7**	**30.9**	**29.5**	**27.4**	**25.4**	**23.2**	**0.0**
Scenario with no policy change (constant primary balance) in 2012-2017				**32.7**	**30.3**	**28.1**	**25.2**	**22.3**	**19.3**	**0.4**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (in percent)	1.7	4.0	6.6	4.0	4.1	4.5	4.5	4.5	4.5	
Average nominal interest rate on public debt (in percent) 8/	11.4	8.5	8.6	7.9	8.6	9.0	9.1	8.8	9.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	8.0	4.8	2.4	5.4	5.9	6.0	6.2	6.0	6.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	9.8	2.7	2.4	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	3.4	3.6	6.2	2.5	2.8	2.9	2.9	2.8	2.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	15.1	5.9	4.9	0.7	9.5	1.8	2.1	3.9	3.3	
Primary deficit 9/	-0.8	0.2	-1.0	-3.2	-1.6	-1.8	-1.8	-1.7	-1.8	

Source: Fund staff estimates.

1/ Gross debt of the combined public sector, including Ecopetrol and Banco de la República's outstanding external debt. Does not assume any drawings under the Flexible Credit Line arrangement or any contingent liability.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

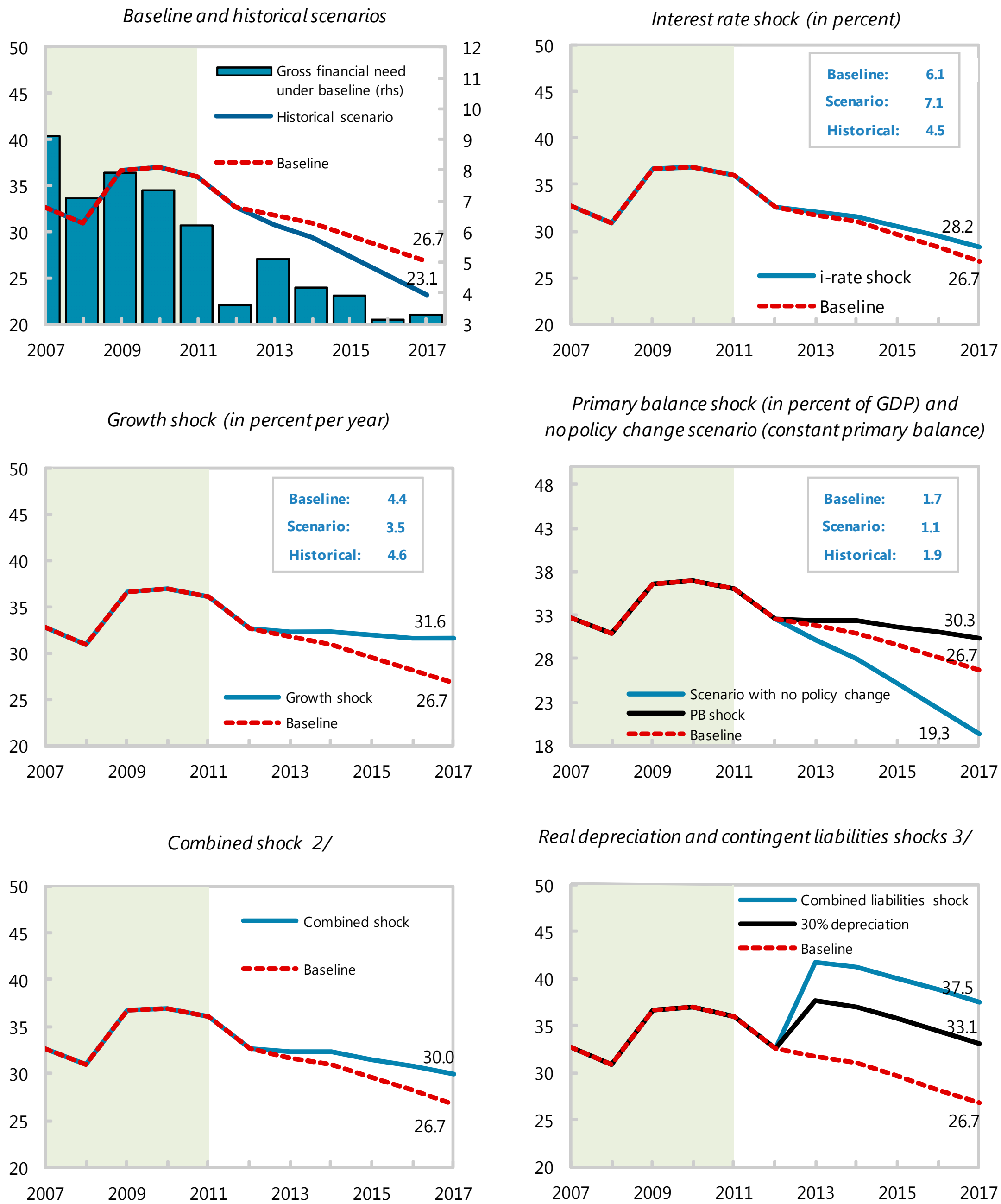
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Excludes statistical discrepancy.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 7. Colombia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10. Colombia: External Debt Sustainability Framework, 2009-2017

(In percent of GDP, unless otherwise indicated)

	Actual				Projections 1/					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 7/
Baseline: External debt	23.2	22.7	23.2	**21.4**	**20.9**	**20.0**	**19.4**	**18.7**	**18.1**	**-2.7**
Change in external debt	3.5	-0.5	0.4	-1.7	-0.5	-0.9	-0.6	-0.6	-0.6	
Identified external debt-creating flows (4+8+9)	0.8	-1.2	0.0	-2.1	-0.9	-1.0	-0.9	-0.8	-0.9	
Current account deficit, excluding interest payments	0.9	2.1	1.9	2.2	1.9	1.6	1.4	1.6	1.5	
Deficit in balance of goods and services	0.1	0.4	-0.5	-0.2	0.0	-0.3	-0.2	0.0	0.2	
Exports	16.5	15.9	19.2	18.2	17.7	17.7	17.5	17.0	16.6	
Imports	16.6	16.3	18.8	18.0	17.7	17.4	17.3	17.1	16.8	
Net non-debt creating capital inflows (negative)	-1.6	0.0	-1.6	-4.4	-3.0	-2.9	-2.7	-2.6	-2.7	
Automatic debt dynamics 2/	1.5	-3.3	-0.3	0.1	0.2	0.3	0.4	0.2	0.2	
Contribution from nominal interest rate	1.2	1.0	1.0	0.9	1.1	1.2	1.2	1.0	1.0	
Contribution from real GDP growth	-0.3	-0.7	-1.3	-0.8	-0.8	-0.9	-0.8	-0.8	-0.8	
Contribution from price and exchange rate changes 3/	0.6	-3.6	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	2.7	0.7	0.4	0.4	0.3	0.2	0.3	0.2	0.3	
External debt-to-exports ratio (in percent)	140.6	143.0	120.4	117.6	118.1	113.0	110.9	110.1	108.8	
Gross external financing need (in billions of U.S. dollars) 5/	16.4	19.1	23.7	33.8	34.0	34.6	37.8	33.7	36.4	
in percent of GDP	7.1	6.7	7.2	9.2	8.7	8.4	8.6	7.2	7.3	
Scenario with key variables at their historical averages 6/				**21.4**	**19.0**	**16.4**	**14.0**	**11.6**	**9.4**	**-4.9**
Key Macroeconomic Assumptions Underlying Baseline										
Real GDP growth (in percent)	1.7	4.0	6.6	4.0	4.1	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	-3.2	18.3	7.8	7.7	2.0	1.5	1.6	1.6	1.8	
Nominal external interest rate (in percent)	6.0	5.5	5.0	4.5	5.3	5.9	6.4	5.7	5.9	
Growth of exports (U.S. dollar terms, in percent)	-10.4	18.5	39.2	6.1	3.1	6.2	4.7	3.5	4.0	
Growth of imports (U.S. dollar terms, in percent)	-14.0	20.9	32.1	7.7	4.1	4.2	5.8	4.8	4.8	
Current account balance, excluding interest payments	-0.9	-2.1	-1.9	-2.2	-1.9	-1.6	-1.4	-1.6	-1.5	
Net non-debt creating capital inflows	1.6	0.0	1.6	4.4	3.0	2.9	2.7	2.6	2.7	

Source: Fund staff estimates.

1/ It does not assume any drawings under the Flexible Credit Line arrangement.

2/ Derived as [r - g - p(1+g) + ea(1+r)]/(1+g+p+gp) times previous period debt stock, with r = nominal effective interest rate on external debt; p = change in domestic GDP deflator in US dollar terms, g= real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-p(1+g) + ea(1+r)]/(1+g+p+gp) times previous period debt stock. p increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

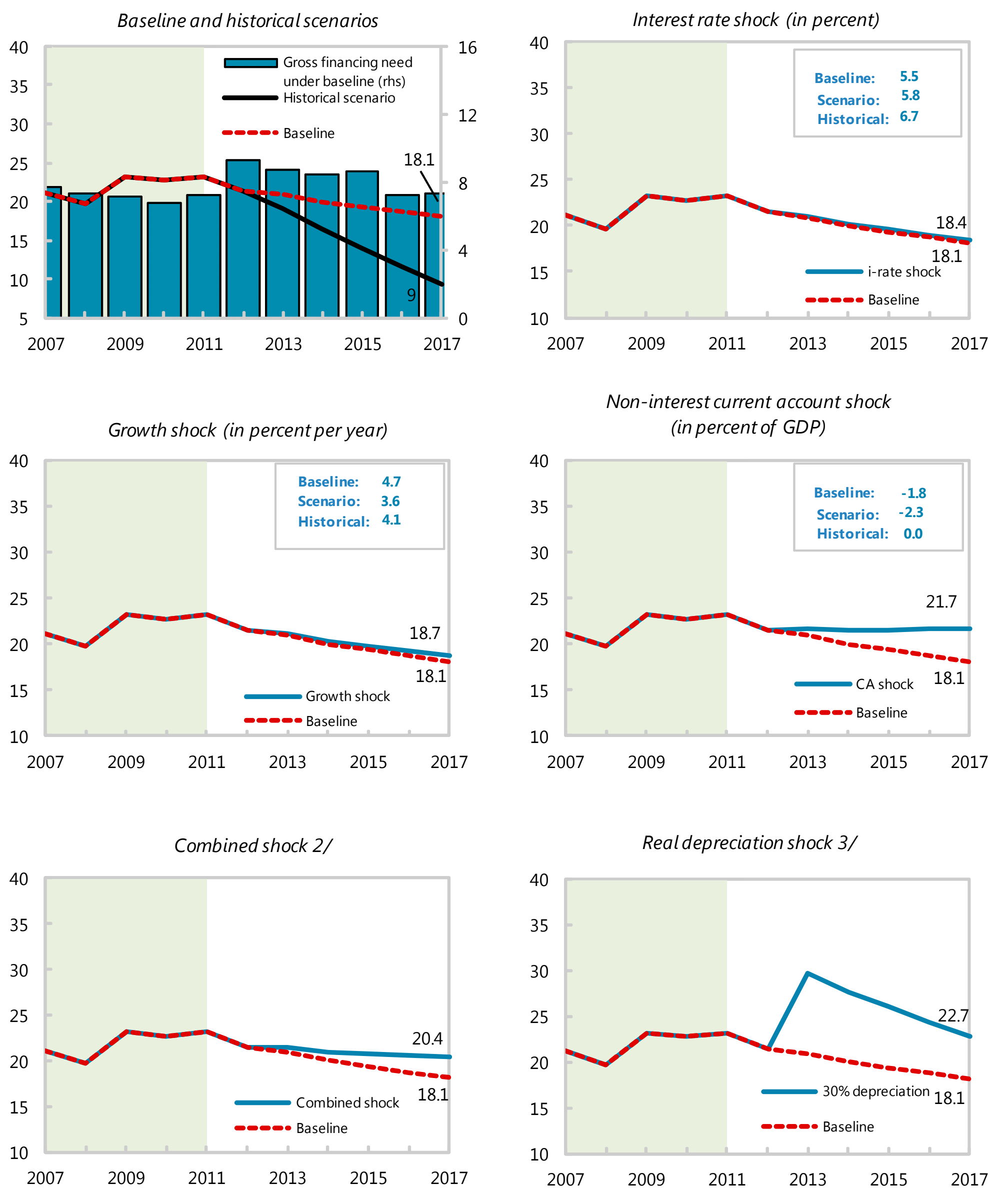
4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 8. Colombia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 11. FCL Arrangement for Colombia—Impact on GRA Finances

(In SDR millions, unless otherwise indicated)

	As of 5/16/13
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	265,596
Impact on FCC on approval of FCL (net)	-3,870
If fully drawn (effect on FTP)	-619
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 2/	4.2
In percent of current precautionary balances	33.7
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	81.2
In percent of total GRA credit outstanding, upon approval of the FCL 2/	77.8
Memorandum items	
Current precautionary balances (FY 2012)	11,500
Total FCL commitments, including proposed FCL 3/	73,162
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance Department.

1/ The FCC reflects resources available under the NAB during the current activation period. The FCC does not include about US$461 billion in bilateral pledges from members to boost IMF resources. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these

2/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

3/ Excluding Colombia's existing FCL.

Table 12. Colombia: Indicators of Fund Credit, 2012-18 1/

		Projections					
	2012	2013	2014	2015	2016	2017	2018
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	3,870	3,870	3,870	2,903	968	0
In percent of quota	0	500	500	500	375	125	0
In percent of GDP	0	1.5	1.4	1.3	0.9	0.3	0
In percent of exports of goods and services	0	8.5	8.0	7.6	5.5	1.8	0
In percent of gross reserves	0	12.7	12.2	11.7	8.7	3.0	0
Flows from prospective drawings							
Charges (Millions of SDR)	0	16.8	41.0	41.0	40.2	25.0	5.3
Debt Service due on GRA credit (Millions SDR)	0	48.7	72.0	72.0	1,042.8	1,967.9	972.8
In percent of quota	0	6.3	9.3	9.3	134.7	254.3	125.7
In percent of GDP	0	0.0	0.0	0.0	0.3	0.6	0.3
In percent of exports of goods and services	0	0.1	0.1	0.1	2.0	3.6	1.7
In percent of gross reserves	0	0.2	0.3	0.2	3.4	6.3	3.0
Memorandum Item:							
Total External Debt (percent of GDP)	21.4	22.4	21.4	20.7	19.7	18.4	17.4
Total Debt Service (percent of GDP)	7.2	7.0	6.7	7.0	5.5	5.7	4.8

Sources: IMF Finance Department; Colombian authorities, and Fund staff estimates.

1/Assumes full drawings under the FCL upon approval. The Colombian authorities have expressed their intention to treat the arrangement as precautionary.

2/Stocks as of end of period.

Attachment. Letter from the Authorities Requesting FCL

Bogota, May 24, 2013

Ms. CHRISTINE LAGARDE
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Lagarde,

We would like to thank the Fund for the three FCL arrangements that have been approved for Colombia since early 2009. The FCLs have been an important support to the economy during the financial crisis and the prolonged global downturn. They have served as a complement to the wide range of policy responses, grounded on maintaining exchange rate flexibility, adopting countercyclical fiscal and monetary policies and securing precautionary external funding through an increasing level of international reserves. In addition, the FCLs have signaled the strength of the Colombian economy and policy framework, with high positive impacts in the markets.

Although we recognize that prospects in Advanced Economies have somewhat improved, we remain concerned that the global economic recovery continues to be subject to downside risks stemming from a slowdown in economic growth that has been deeper than expected, fiscal weaknesses in advanced countries, fragilities in large financial systems, and a sentiment that remains vulnerable to setbacks in major economic areas. More recently, the uncertainty associated with the exit of accommodative monetary policies in Advanced Economies has become an issue of great concern. These risks translate into an uncertain outlook for external demand for our products, terms of trade, workers´ remittances, and capital flows, both portfolio and FDI.

Based on the above considerations, we would like to make a new request for a two-year FCL arrangement in the amount of SDR 3.87 billion (500 percent of quota), the same magnitude as in the 2011-2013 FCL. As with previous FCLs, we intend to treat the new arrangement as precautionary.

Strong macroeconomic policies and the solid institutional framework have enabled both fiscal and monetary policies to work counter-cyclically and maintain a comfortable external position with greatly reduced external vulnerabilities. Fiscal policy has been framed in the context of structural reforms such as the Royalties Law, the Fiscal Rule and the recently approved tax reform. Sovereign debt remains relatively low and is rated investment grade. Indeed, Colombia has had full access to the international capital markets with a significant improvement in its funding conditions.

The monetary policy framework, based on a flexible inflation targeting regime and a flexible exchange rate, has helped us attain our long-term inflation target (a range of 2–4 percent) and has contributed to smoothing out business cycles. Consistent with this commitment, the Banco de la República raised its policy rate from 3% in January 2011 to 5.25% in February 2012 to tame inflationary pressures that were building up throughout that period. Recently, as those pressures eased, monetary authorities relaxed the policy stance by reducing interest rates to 3.25% in March 2013; this will provide a necessary stimulus in the current circumstances. International reserve coverage in terms of imports, short-term debt and money stock remains comfortable. As is the case with public debt, the external debt-to-GDP ratio is relatively low and sustainable.

As was concluded in the recent FSAA, the financial supervisory and regulatory framework is strong and banks remain healthy, liquid and profitable. The ratio of capital to risk-weighted assets for the banking system is well above requirements and provisioning levels are high. In August 2013, banks will have to comply with capital that satisfies the quality specified by Basel III.

Overall, the track record of prudent macroeconomic policies and the very strong institutional framework provide ample assurances of our ability to withstand adverse shocks. They also signal our resolute commitment to preserve sound policies while continuing to build buffers and to react as needed should risks materialize. Looking ahead, our policy strategy consists in maintaining exchange rate flexibility as the main shock absorber, further strengthening fiscal buffers and savings, as mandated by the Fiscal Rule and the Royalties Law, continuing to accumulate international reserves, and keeping inflation within the target range and expectations well anchored. These policies will help reduce vulnerabilities and build resilience to external shocks, which will allow the country to increase its self protection and rely less on contingent external financing if risks recede. In the meantime, the arrangement will continue to help reinforce market confidence that Colombia is in a position to withstand a wide range of adverse external shocks.

Finally, let us take this opportunity to state again that the Banco de la República will continue providing the Fund's staff with all needed information, and that we have sent the requested authorizations to the Bank's external auditors in accordance with the safeguard policy for the FCL.

Sincerely yours,

/s/	/s/
José Darío Uribe Escobar	**Mauricio Cárdenas Santamaría**
Governor Central Bank of Colombia	Minister of Finance and Public Credit

INTERNATIONAL MONETARY FUND

COLOMBIA

ASSESSMENT OF THE IMPACT OF THE PROPOSED FLEXIBLE CREDIT LINE ARRANGEMENT ON THE FUND'S FINANCES AND LIQUIDITY POSITION

June 4, 2013

Approved By
Andrew Tweedie and Mark J. Flanagan

Prepared by the Finance and Strategy, Policy, and Review Departments

CONTENTS

INTRODUCTION

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[1] The proposed arrangement would cover a two-year period and access would be in an amount equivalent to SDR 3.870 billion (500 percent of quota). It would succeed the previous FCL arrangement with identical access, which expired on May 5, 2013. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the arrangement as precautionary.

BACKGROUND

2. **Colombia has had three FCLs since 2009.** Against the backdrop of a global economic and financial crisis, a one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved on May 11, 2009, which the authorities treated as precautionary. This arrangement was succeeded by another one-year FCL arrangement in an amount equivalent to SDR 2.322 billion (300 percent of quota) approved on May 7, 2010, and a two-year FCL arrangement in the amount of SDR 3.870 billion (500 percent of quota) approved on May 6, 2011, which were also treated as precautionary. Colombia's strong economic fundamentals and institutional policy frameworks allowed the authorities to cushion the impact of the crisis through countercyclical monetary and fiscal policies, with the FCL arrangements providing additional insurance against a deterioration of global conditions or specific shocks. No drawings have been made under any of the FCL arrangements. As discussed in Annex I, Colombia has had six arrangements since 1999, but has not drawn on Fund resources since 1971.

3. **Colombia's total external debt is moderate and expected to remain sustainable even in the event of further significant negative shocks (Table 1).** External debt was declining relative to GDP during the years preceding the recent crisis. The global shock resulted in a small rise in external debt, which increased from 19.7 percent of GDP in 2008 to 23.2 percent in 2009, falling to about 21 percent of GDP in 2012.[3] The bulk of this debt is long term and owed by the public sector. Private sector external debt is also very low, although it has increased somewhat from 7.2 percent of GDP in 2008 to 8.8 percent of GDP in 2012, reflecting liquidity conditions in international credit markets as well as investment opportunities in commodity export sectors. Over the medium term the external current account deficit, currently about 3 percent of GDP, is expected to decline as a share of GDP,

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[1] See *GRA Lending Toolkit and Conditionality—Reform Proposals (3/13/09) and Flexible Credit Line (FCL) Arrangements*, Decision No.14283-(09/29), adopted March 24, 2009, as amended.

[2] If the full amount is not drawn in the first year of the arrangement, subsequent purchases are subject to a review of Colombia's continued qualification for the FCL arrangement.

[3] For comparison, Mexico's and Poland's external debt was about 24 percent and 70 percent in 2012, respectively.

and to be largely financed by FDI. Debt sustainability analysis suggests that external debt ratios would remain manageable even under significant negative shocks.[4]

Table 1. Colombia: Total External Debt, 2007–12

	2007	2008	2009	2010	2011	2012
	(In Millions of US Dollars)					
Total External Debt	44,553	46,369	53,719	64,739	75,903	78,642
Private	15,734	16,921	16,590	25,192	33,134	32,242
Public	28,819	29,448	37,129	39,546	42,770	46,400
	(In Percent of GDP)					
Total External Debt	21.2	19.7	23.2	22.7	23.2	21.4
Private	7.5	7.2	7.2	8.8	10.1	8.8
Public	13.7	12.5	16.0	13.9	13.1	12.6

Sources: Colombian authorities and IMF staff estimates.

4. **Colombia has no outstanding debt to the Fund.** Full drawing under the proposed FCL arrangement—which the authorities intend to treat as precautionary—would bring Colombia's outstanding use of GRA resources to SDR 3.870 billion.

5. **In case the full amount available under the proposed FCL arrangement is disbursed in 2013:**

- **Colombia's total external debt would remain moderate, with Fund credit representing still a relatively modest fraction:** total external debt and public external debt would initially reach 22.4 and 14.3 percent of GDP, respectively, with Fund credit at 1.5 percent of GDP (Table 2). At its peak, Colombia's outstanding use of GRA resources would account for 6.7 percent of total external debt, 10.5 percent of public external debt, and 12.7 percent of gross international reserves.

- **External debt service including obligations to the Fund would increase over the medium term, but would remain manageable.** Colombia's projected debt service to the Fund would peak in 2017 at about SDR 2 billion, or close to 0.6 percent of GDP.[5] In the same year, external debt service to the Fund would peak at 3.6 percent of exports of goods and services, and

[4] A more detailed description of external and public debt is provided in the staff report.

[5] The figures on debt service used in this report are calculated assuming that the full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

account for about 27 percent of public external debt service which would rise to 13.1 percent of exports of goods and services.

6. **The approval of the arrangement would have a small impact on the Fund's liquidity, and the Fund's potential credit risk exposure would also be modest:**

- **The proposed arrangement would reduce the Fund's modified forward commitment capacity (FCC) by about 1.5 percent (Table 3).**[6] However, this decline would offset an increase in the FCC that resulted from the expiration of the previous arrangement of the same size. If Colombia were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC would decline by an additional SDR 619 million.[7]

- **If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia would be about 4.2 percent of total GRA credit.** This would make Colombia the seventh largest borrower among current arrangements, and reduce the concentration of Fund credit in the top five users of Fund resources from about 80 percent to about 78 percent.

- **Potential GRA exposure to Colombia would be below the current level of the Fund's precautionary balances.** If the resources available under the arrangement were fully drawn, Fund credit to Colombia would be equivalent to about 34 percent of the Fund's current precautionary balances.

[6] The FCC measures the Fund's capacity to make new credit commitments. It reflects resources available under the NAB during the current NAB activation period. The FCC does not include about US$461 billion in bilateral pledges from members to boost IMF resources. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.

[7] Taking into account resources held as prudential balance, the decline in the FCC would be equal to 80 percent of Colombia's quota.

Table 2. Colombia: Capacity to Repay Indicators 1/

	2012	2013	2014	2015	2016	2017	2018
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	3,870.0	3,870.0	3,870.0	2,902.5	967.5	--
(In percent of quota)	--	(500.0)	(500.0)	(500.0)	(375.0)	(125.0)	(0.0)
Charges due on GRA credit 2/	--	48.7	72.0	72.0	75.3	32.9	5.3
Debt service due on GRA credit 2/	--	48.7	72.0	72.0	1,042.8	1,967.9	972.8
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	21.4	22.4	21.4	20.7	19.7	18.4	17.4
Public external debt	12.6	14.3	13.8	13.3	12.5	11.5	10.7
GRA credit to Colombia	--	1.5	1.4	1.3	0.9	0.3	--
Total external debt service	7.2	7.0	6.7	7.0	5.9	6.3	5.1
Public external debt service	2.1	1.6	1.7	1.7	1.6	2.2	1.3
Debt service due on GRA credit	--	0.0	0.0	0.0	0.3	0.6	0.3
In percent of Gross International Reserves							
Total external debt	212.6	188.6	184.0	181.8	183.6	187.6	189.7
Public external debt	125.4	120.4	118.9	117.2	116.9	116.8	116.5
GRA credit to Colombia	--	12.7	12.2	11.7	8.7	3.0	--
In percent of Exports of Goods and Services							
Total external debt service	39.6	39.5	38.1	40.0	34.5	37.6	31.5
Public external debt service	11.4	8.9	9.5	9.8	9.7	13.1	8.2
Debt service due on GRA credit	--	0.1	0.1	0.1	2.0	3.6	1.7
In percent of Total External Debt							
GRA credit to Colombia	--	6.7	6.6	6.4	4.8	1.6	--
In percent of Public External Debt							
GRA credit to Colombia	--	10.5	10.2	10.0	7.5	2.6	--
U. S. dollars per SDR (period average)	1.53	1.52	1.51	1.51	1.51	1.50	1.50
U. S. dollars per SDR (end of period)	1.54	1.52	1.51	1.51	1.50	1.50	1.50

Sources: Colombian authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings under the FCL upon approval.
2/ Based on the rate of charge as of May 16, 2013. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

Table 3. FCL Arrangement for Colombia—Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 5/16/13
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	265,596
Impact on FCC on approval of FCL	-3,870
If drawing under the arrangement 2/	-619
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	4.2
In percent of current precautionary balances	33.7
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	81.2
In percent of total GRA credit outstanding, upon approval of the FCL 3/	77.8
Memorandum items	
Current precautionary balances (FY 2013)	11,500
Total FCL commitments, including proposed FCL	73,162
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance Department.

1/ The FCC measures the Fund's capacity to make new credit commitments. It reflects resources available under the NAB during the current activation period. The FCC does not include about US$461 billion in bilateral pledges from members to boost IMF resources. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.
2/ The decline in the FCC would be equal to 80 percent of Colombia's quota.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

7. **The proposed arrangement will have a small effect on the Fund's liquidity.** The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia. Even if Colombia were to draw, the effect on the Fund's liquidity would be small. Nevertheless, in view of the uncertainty surrounding the recovery from the global crisis and the likelihood of continuing strong demand for Fund financing, a close monitoring of the liquidity position is warranted.

8. **Colombia intends to treat the FCL arrangement as precautionary, but the Fund's credit exposure would remain moderate even with a drawing.** If fully drawn, the arrangement would account for only a small share of total GRA credit outstanding and be well below the existing level of precautionary balances. Moreover, given Colombia's sustained track record of implementing very strong policies, including during the global financial crisis, its commitment to maintain such policies

in the future, and its low external debt, its capacity to repay the Fund is projected to remain strong even if potential downside risks from a reversal of favorable commodity prices and external financing conditions were to arise. Nonetheless, the scale of the Fund's potential exposure—in conjunction with the recent increase in lending to other members and the prospects for further credit expansion under already existing or possible new Fund arrangements—underscores the need to strengthen the Fund’s precautionary balances.

ANNEX I. COLOMBIA: HISTORY OF IMF ARRANGEMENTS

Colombia had six Fund arrangements since 1999, but has not drawn on Fund resources since 1971 (Table I.1). A one-year FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009 to support Colombia's economic policies and bolster confidence during the crisis. A successor one-year FCL arrangement equivalent to SDR 2.322 billion was approved on May 7, 2010. This arrangement was cancelled and a new two-year FCL was approved in May 6, 2011 increasing the access to SDR 3.870 billion.

Prior to the FCL arrangement approved in 2009, Colombia had a series of Stand-by Arrangements (SBAs) from the late 1950s to the mid-1970s. It last made purchases in 1971 and settled its remaining outstanding obligations to the Fund in 1972. Following a quarter century without Fund arrangements, Colombia´s economic performance deteriorated markedly in 1998-99 as a result of external shocks and intensified domestic tensions. To address the economic difficulties, a three-year Extended Arrangement under the Extended Fund Facility (EFF) was approved in 1999 to support the authorities' economic reform program. No drawings were made under this arrangement, which was followed by two precautionary SBAs, the last of which expired in November 2006. In the period covered by these three Fund arrangements, Colombia successfully adopted wide ranging macroeconomic and structural reforms.

Table I.1. Colombia: IMF Financial Arrangements, 1999–2011
(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure
1999	EFF	20-Dec-99	19-Dec-02	1,957	--	--	--	--
…						--	--	--
2003	SBA	15-Jan-03	2-May-05	1,548	--	--	--	--
2004						--	--	--
2005	SBA	2-May-05	2-Nov-06	405	--	--	--	--
…								
2009	FCL	11-May-09	10-May-10	6,966	--	--	--	--
2010	FCL	7-May-10	6-May-11	2,322	--	--	--	--
2011	FCL	6-May-11	5-May-13	3,870				

Source: Finance Department.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No.13/229
FOR IMMEDIATE RELEASE
June 24, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Successor Two-Year US$ 5.84 billion Flexible Credit Line for Colombia

The Executive Board of the International Monetary Fund today approved a new two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 3.87 billion (about US$5.84 billion). The Colombian authorities indicated that they intend to treat the new arrangement as precautionary and do not intend to draw on the line. Colombia's first FCL was approved on May 11, 2009 (see Press Release No. 09/161) and two successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186) and May 6, 2011 (see Press Release No. 11/165)

Following the Executive Board discussion of Colombia, Mr. David Lipton, First Deputy Managing Director and Acting Chairman of the Board, made the following statement:

"Colombia has very strong policy frameworks, comprising an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule for the central government. The authorities also have a sustained track record of implementation of very strong policies, which have underpinned strong economic performance in recent years. Looking ahead, the authorities are firmly committed to maintaining such policies and to undertaking further initiatives—including the recently-approved tax reform—to bolster growth, reduce inequality, and further increase economic resilience.

"Colombia's macroeconomic policies provided resilience to the global financial crisis and supported a strong recovery and gradual rebuilding of policy buffers. The exchange rate has played a key shock-absorbing role, and the financial system has remained stable. The authorities have also taken advantage of strong capital inflows to partially rebuild their international reserve position.

"However, risks to the global economic outlook remain elevated, and if they materialized, they would affect Colombia's economy and external accounts. Access to the Fund's Flexible

Credit Line (FCL) instruments will continue to play an important role in supporting the authorities' macroeconomic strategy if that were to happen. A successor arrangement, which the authorities intend to continue to treat as precautionary, will help Colombia to effectively manage potential shocks and sustain strong economic performance, while the authorities continue strengthening their policy framework and rebuilding policy buffers."

Background on the Flexible Credit Line:

The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 09/85 and 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria. The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

Statement by Maria Angelica Arbelaez, Alternate Executive Director for Colombia, on the Arrangement under the Flexible Credit Line June 24, 2013

On behalf of the Colombian authorities, I thank staff and management for their positive response to their request for a new Flexible Credit Line (FCL). I also wish to express the authorities' gratitude for the previous FCLs received by Colombia.

The FCLs have been an important support to the economy during the financial crisis and the prolonged global downturn, and have served as a complement to the wide range of countercyclical policy responses. In addition, they have provided space to strengthen the policy framework and to build policy buffers. Indeed, since the approval of the first FCL in 2009, and despite the challenging global economic climate, the government has adopted important structural reforms and kept strengthening the economy. The reform package included the Fiscal Rule, a comprehensive tax reform, an amendment to the Constitution to include fiscal sustainability as a general principle and a reform to mining and oil royalties to improve their distribution among regions and generate savings. A health reform now being discussed in Congress and a pension reform are underway.

Economic fundamentals have also strengthened. The fiscal stance has substantially improved and public debt decreased; inflation kept declining to low levels while expectations are well anchored; the current account deficit has remained low and comfortably financed by FDI; the external debt-to-GDP ratio near 20 percent is manageable and sustainable; international reserves have been continuously building up; and Colombia has had full access to international capital markets with improved funding conditions—in 2013 Colombia paid the lowest yields in history. As concluded in the recent FSSA, the financial supervisory and regulatory framework is strong and banks remain healthy, liquid and profitable. The ratio of capital to risk-weighted assets for the banking system is well above requirements and provisioning levels are high. The authorities are moving ahead with the FSSA recommendations.

The strength of the institutional framework, coupled with a countercyclical macroeconomic management and favorable commodity prices, has allowed the economy to become relatively resilient to the global downturn and steadily reduce unemployment. Nonetheless, growth slowed down from 6.6 percent in 2011 to 4 percent in 2012 well below expectations, to which lower external demand and in less degree currency appreciation—one of the highest in Latin America—have contributed. To reverse this downward path the authorities have implemented a policy mix grounded on monetary easing and a budget-neutral stimulus package recently launched aiming at boosting productivity and employment. The authorities expect that these measures will propel growth to near its potential.

Monetary and exchange rate policies

The monetary policy framework, based on a flexible inflation targeting regime and a flexible exchange rate, has helped attain the long-term inflation target (a range of 2–4 percent) and has contributed to smoothing out business cycles. Consistent with this commitment, the Banco de la República (BR) raised its policy rate from 3 percent in January 2011 to 5.25 percent in February 2012 to tame inflationary pressures that built up throughout that period. Recently, as those pressures eased, the monetary authorities relaxed the policy stance by reducing interest rates to 3.25 percent in March 2013 in order to provide the necessary stimulus under current circumstances. In April, the inflation rate of 2 percent fell below the long-term target of 3 percent, which gives the BR room for maneuver should domestic demand need further impulse.

Exchange rate flexibility (de jure and de facto) has continued to be the main shock absorber. International reserves have been rising in the past five years and coverage in terms of imports and short-term debt remains comfortable, although still below 2008 levels. The BR has put in place pre-announced daily purchases in the foreign exchange market, a mechanism that allows the authorities to keep accumulating reserves.

Fiscal Policy

Colombia has put in place a solid institutional framework in order to anchor fiscal discipline and ensure debt sustainability, at both the central and regional governments. The Fiscal Rule Law (FRL) sets a quantitative target for the structural balance of the central government of 1.0 percent or below from 2020 onward. The government must also attain a non-increasing path for the deficit along the transition to this long-run target. The short-term fiscal policy, based on the Medium-Term Fiscal Framework that is updated and approved by Congress every year, is guided by the main objectives of debt reduction and sustainability, and improvement in the primary balance in order to meet the fiscal rule which will enter into force in 2014.

Fiscal performance has been remarkable since 2009. In 2012, the Combined Public Sector balance reached a surplus of 0.3 percent of GDP and the Central Government a deficit of 2.3 percent; the net debt of the Non-Financial Public Sector declined to 25.1 percent and is expected to hover around 15 percent by 2018 according to the FRL; and public savings increased to 6.2 percent of GDP. Such fiscal discipline and low levels of debt strengthen Colombia's resilience to adverse economic shocks in the short, medium and long term.

Request for the FCL

Despite the progress made, the Colombian economy remains vulnerable to external shocks. In the authorities' view, while prospects in advanced economies have somewhat improved, adverse risks stemming from the global economy still persist. Among the risks that would significantly impact both the current and the capital accounts, if materialized, are: a slowdown in economic growth in the US and in Europe (50 percent of exports) and deeper than expected in emerging markets such as China, India and Venezuela (15 percent of exports); a sharp decline in commodity prices—particularly oil—which would also impact FDI; and an increase in risk aversion and worsening of markets' confidence which would lower external financing and provoke outflows by residents, as has been the case in previous crises.

The uncertainty associated with the exit of the accommodative monetary policy in the United States and the resulting increase in long-term interest rates have become issues of great concern. The motivation, timing and the way the exit will take place will determine the impact on the external adjustment of the Colombian economy. A bumpy exit might cause sudden reversal of capital flows, large fluctuations in the exchange rate and a sharp fall in the terms of trade. In such scenario, the protection provided by the FCL would be worthwhile.

Based on the above considerations, the authorities are requesting a two-year FCL arrangement in the amount of SDR 3.87 billion SDR (500 percent of quota). According to their estimations, the potential financing need would be even larger (in part due to the bigger size of the economy), but part of the shock could be absorbed through international reserves. However, although higher, the current level of reserves is not sufficient to offset most of the effects.

The authorities' intention is to gradually lessen the economy's dependency on contingent external financing should risks recede and resilience strengthens. Consistent with this strategy, the amounts requested relative to the scale of the economy have been declining since the first FCL in 2009. In the current request, although the amount is similar in magnitude to that of the 2011–13 FCL, the relative level of protection against tail risks provided by the arrangement is lower. Indeed, using the traditional metrics the amount of FCL, as a percentage of imports, fell from 3.5 percent in 2009 to 1.3 percent in 2011 and to 1 percent in the current request; similarly, in the same years the FCLs represented 0.12 percent of Broad Money, 0.05 percent and 0.04 percent, respectively; and finally, compared to the current account deficit plus external debt amortizations, the FCLs dropped from 0.64 percent to 0.22 percent and to 0.19 percent in the current request.

Looking ahead, the policy strategy consists in maintaining exchange rate flexibility as the main shock absorber, further strengthening fiscal buffers and savings, continuing to accumulate international reserves, and keeping inflation within the target range and expectations well anchored. These policies will help reduce vulnerabilities and build resilience to external shocks, which will allow the country to increase its self protection. In the meantime, the arrangement will continue to help reinforce market confidence that Colombia is in a position to withstand a wide range of adverse external shocks. The authorities are ready to review the access level during the first review should domestic and external conditions improve.

Finally, as with previous FCLs, the authorities intend to treat the new arrangement as precautionary.